S. Hrg. 98-1

TRADEMARK COUNTERFEITING ACT OF 1982

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2428

A BILL TO AMEND TITLE 18 OF THE UNITED STATES CODE TO STRENGTHEN THE LAWS AGAINST THE COUNTERFEITING OF TRADEMARKS, AND FOR OTHER PURPOSES

SEPTEMBER 15, 1982

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TRADEMARK COUNTERFEITING ACT OF 1982

WEDNESDAY, SEPTEMBER 15, 1982

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The committee met, pursuant to notice, at 9:36 a.m., in room 2228, Dirksen Senate Office Building, Hon. Charles McC. Mathias, Jr. (acting chairman) presiding.

Also present: Senator Grassley.

Staff present: Ralph Oman, counsel; Charles Borden, professional staff member; Linda Colancecco, chief clerk, Subcommittee on Criminal Law.

OPENING STATEMENT OF SENATOR MATHIAS

Senator MATHIAS. The committee will come to order.

Today the committee will discuss a bill dealing with the growing problem of commercial counterfeiting. Legitimate businesses suffer the losses of billions of dollars every year to counterfeiters, and I am interested to note that the problem extends to all types of manufacturing activity. The victims of counterfeiting are not limited merely to the disappointed consumers of luxury goods. It actually goes to equipment machinery which is capable of resulting in fatal accidents.

The Bell Helicopter Co. attributes several fatal crashes to counterfeit rotor gears. A British bus manufacturer traces a series of fatal brake failures to counterfeit brake drums. So this is not just a matter of a few gadgets or designer clothing.

Even the U.S. Government has been victimized by commercial counterfeiters. NASA, which is one of the most professional of all institutions in the world, discovered fake transistors in 1976 in vehicles that were destined for outer space.

Commercial counterfeiting has become a slick, sophisticated, and dangerous business. It can no longer be dismissed as a minor irritant with only minor consequences. It is in fact an unusual phenomenon in this period of business slowdown; it is a growth business. It is one of the few growth businesses. It is an international business and it is hurting everyone very badly.

A study prepared by the Anti-Counterfeiting Coalition cites a Justice Department estimate that the U.S. loses $16 billion every year through commercial counterfeiting. In many countries the counterfeiting has come out of the back alleys and the dark ga-

rages of the slums and has come right into the mainstream of commerce. Fly-by-night operations have moved into modern factories.

To offset this rampant counterfeiting, Senate bill 2428 establishes criminal penalties of up to $250,000 or 5 years imprisonment for trafficking in counterfeit brand labels. Civil suits are also authorized—the plaintiff can recover treble damages, the defendants' profits, the costs of investigating and prosecuting a violation and, at the discretion of the court, interest on the loss. To aid in the civil action, the defendant cannot deny the particulars if convicted under the criminal statute.

The bill's greatest virtue may be the deterrent effect it will have. As long as the counterfeiters can expect that they are going to make a great deal of money at relatively low risk, then commercial counterfeiting will continue. This bill I think will make them think not only once but twice, and I hope that this hearing will be able to build a persuasive record for the enactment of the bill. I am going to suggest that the record remain open for a period of 2 weeks for additional statements or information that may be submitted.

I request that a copy of S. 2428 be placed in the record.

[The text of the bill follows:]

II

97TH CONGRESS
2D SESSION

S. 2428

To amend title 18 of the United States Code to strengthen the laws against the counterfeiting of trademarks, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 22 (legislative day, APRIL 13), 1982

Mr. MATHIAS introduced the following bill; which was read twice and referred to the Committee on the Judiciary

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A BILL

To amend title 18 of the United States Code to strengthen the laws against the counterfeiting of trademarks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Trademark Counterfeiting Act of 1982".

SEC. 2. (a) Title 18, United States Code, is amended by inserting after section 2318 the following:

"§ 2319. Criminal trafficking in counterfeit marks

"(a) Whoever in the foreign or domestic commerce of the United States traffics or attempts to traffic in a counterfeit mark knowing the mark to be counterfeit shall, if such

offender is an individual, be fined not more than $250,000 or imprisoned for not more than five years, or both, or, if such offender is a corporation, be fined not more than $1,000,000.

"(b) As used in this section—

"(1) 'counterfeit mark' means any mark that is counterfeit as defined in section 45 of the Act entitled 'An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes', approved July 5, 1946 (60 Stat. 427; 15 U.S.C. 1127), and that is used or is intended to be used on or in connection with goods or services for which the genuine mark is registered on the principal register in the United States Patent and Trademark Office; and

"(2) 'traffic' means to—

"(A) transfer, assign, or in any manner dispose of, or transfer to another as consideration for anything of value;

"(B) advertise, promote, or in any manner offer to dispose of, or to transfer or assign to another as consideration for anything of value; or

"(C) receive, possess, transport, or in any manner exercise control of, with intent to so

transfer, assign, or dispose of, or with intent to assist another in so doing.

"(c)(1) Any owner of a mark registered on the principal register in the United States Patent and Trademark Office, or his or her designee, who is injured in his or her business or property by reason of a violation of this section may sue in any district court of the United States in the district in which the defendant resides, is found, has an agent, or transacts business, without regard to the amount in controversy, and, upon establishing said violation by a preponderance of the evidence, such civil claimant shall recover—

"(A) treble damages,

"(B) defendant's profits, and

"(C) the costs of investigating the violation and prosecuting the suit, including reasonable investigator's and attorney's fees.

"(2) The court, on a motion promptly made, may in its discretion award prejudgment interest on the actual damages sustained, at an annual interest rate established under section 6621 of the Internal Revenue Code of 1954 commencing on the date of the service of the civil claimant's pleadings which set forth the claim for damages, and ending on the date such judgment is awarded or for a shorter time as the court deems appropriate. Process in any civil action under this section

may be served in accordance with the Federal Rules of Civil Procedure.

"(3) A final judgment or decree rendered in favor of the United States in any criminal proceeding brought by the United States under this section shall estop the defendant from denying the essential allegations of the criminal offense in any civil proceeding brought by any civil claimant pursuant to this section.

"(d) In any civil or criminal proceeding brought under this section the district courts of the United States shall have jurisdiction to prevent and restrain trafficking in counterfeit marks by issuing appropriate orders upon the request, ex parte and without notice, of an attorney for the United States or for any civil claimant, including ordering any person to deliver to the court or to any person designated by the court any and all means of making any counterfeit mark and any and all goods, articles, or matter of any kind bearing any counterfeit mark. Following the execution of any such order, due notice and an opportunity to be heard will promptly be afforded to any party interested in such materials, after which, if the court determines that the mark is counterfeit, such court may order the destruction of such materials or, after obliteration of the counterfeit mark, the disposal of such materials to the United States, the civil claimant, an eleemosynary institution, or, in the court's discretion, any appro-

priate person other than the person from whom the materials were obtained.

"(e) Notwithstanding any other provision of law or rule, a warrant to search for and seize any property or other matter that constitutes evidence of the commission of a violation of this section, or that is or has been used or is designed or intended to be used in the commission of a violation of this section, may be issued by an appropriate district court upon the request, ex parte and without notice, of an attorney for the United States or for any civil claimant who adduces probable cause to believe that the person whose person or premises is to be searched is knowingly trafficking in a counterfeit mark of which the claimant is the lawful owner. In the case of the civil claimant, the warrant must be executed by a public officer. As so modified, the Federal Rules of Criminal Procedure shall govern the issuance and execution of warrants issued pursuant to this subsection and the seizure of property thereunder.

"(f) Nothing in this section shall supersede any provision of Federal, State, or other law imposing criminal penalties or affording civil remedies in addition to those provided for in this section, except that no civil claimant who recovers treble damages pursuant to this section shall also be entitled to collect damages pursuant to section 35 of the Act entitled 'An Act to provide for the registration and protection of trade-

marks used in commerce, to carry out the provisions of certain international conventions, and for other purposes' approved July 5, 1946 (60 Stat. 427; 15 U.S.C. 1117), in connection with the same underlying occurrences or transactions.".

(b) The table of sections for title 18, United States Code, is amended by adding after the item relating to section 2318 the following:

"2319. Criminal trafficking in counterfeit marks.".

○

Senator MATHIAS. Our first witness this morning, whom I am happy to welcome, is William Baxter, the Assistant Attorney General of the United States in charge of the Antitrust Division of the Department of Justice.

Mr. Baxter?

STATEMENT OF HON. WILLIAM F. BAXTER, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, U.S. DEPARTMENT OF JUSTICE

Mr. BAXTER. Thank you, Senator.

I welcome this opportunity to be here this morning to talk with the committee about S. 2428.

The Department of Justice is very strongly in agreement with the objectives of this legislation. We regard the maintenance of a strong trademark system as very important, if not absolutely essential, to the workings of competitive markets in a wide variety of commercial sectors.

On the other hand, we do not at this time have a very good factual fix on the extent of the problem. I heard you refer to a $16 billion per year loss as representing the Department of Justice estimate, but that is not an estimate with which I am familiar.

The bill itself, it seems to me, has a number of problems in it although, as I say, I am strongly sympathetic with its basic objectives. Some of these are merely technically drafting glitches of the kind one would expect in a first cut at drafting. I refer to such things as the fact that if you take the wording of the bill literally, which I am sure was not intended, a private party can recover the Government's expenses of investigation and prosecution as well as his own. I refer to the fact that any owner of a primary trademark can commence these actions against any instance of counterfeiting, whether or not it is his mark or someone else's mark that has been

counterfeited. I am sure that result was not intended, and there are other problems of that kind.

Now, while they are nontrivial as drafting errors go, I do not mean to suggest that they impair the validity of the purpose of the bill in any way, or that they are particularly difficult to fix.

The bill also has some rather far-reaching—some might even think extreme—private remedies in the nature of orders authorizing ex parte seizure; no requirement exists that there be a hearing, even where it is possible to have a hearing. It seems to me that this procedure would, at least, be susceptible to abuse. I can imagine scenarios in which a new company has just spent its last million dollars on a big promotion scheme, and on the eve of introduction of its product, the totality of its inventory is seized by a competitor under these provisions. There is no provision for posting a bond or anything that would provide the same kind of protection.

Yes, it would be an abuse. Yes, presumably the goods would be returned after some period of time, but there are no time limits, there are no provisions for expedition, and there are no provisions for bonding. It does seem to me that some of these things, perhaps, should be cleared up.

The provision for invoking Federal criminal law enforcement is unobjectionable in principle, yet I wonder how realistic it is. I have no doubt that if the problem were tracking down a number of helicopter parts known to be counterfeited and dangerous, in accordance with the episode which you described, Mr. Chairman, it would be appropriate to bring out the FBI and put their resources to use. In the day—in any day—out work of the U.S. attorneys around the country and the Federal Bureau of Investigation, how realistic it is to think that those resources are going to be drawn into what, in most instances, are primarily private battles, seems to me to be an open question.

Our experience with criminal enforcement of commercial law is not very encouraging. That experience leads me to believe that the preferred avenue here should be the creation of effective private remedies and the facilitation of self-help remedies to the extent we can.

With that point in mind, it seems to me the treble damage provisions of the bill are good ones; that the provisions for prejudgment interest and expense for litigation, are all very much in the right direction. I do not mean to suggest that there would not be lots of pretrial orders, such as orders that the warehouse in which the alleged offending goods are said to be located be sealed or controlled so that no such goods could be moved in or out for a period of 48 hours while there was an expedited hearing, that type of provision would make perfectly good sense.

Another point I would like to make in this connection is that some self-help efforts present are at impaired by unfortunate deterrence from antitrust provisions.

Some years ago, manufacturers very commonly used serial numbers on their goods so the distributional path of the goods could be traced. That practice greatly facilitates the tracking down of counterfeit marks. However, a use of serial numbers and the capacity to trace the distribution of goods also gives rise, whether or not it is used for those purposes, to allegations of resale price maintenance.

If a manufacturer uses serial numbers on his goods and he gets in any kind of litigation with his distributors, he will invariably be charged with the per se offense of resale price maintenance. The fact that he put serial numbers on his goods will be introduced into evidence, and that fact alone is likely to be enough, in conjunction with a couple of complaints from other dealers, to get the case to a jury. As a consequence, manufacturers are very, very wisely advised by their antitrust counsel not to use serial numbers or other devices that enable them to trace their product through their distribution system. That, it seems to me, is a cost of the present state of antitrust law that should also be looked at in the context of this particular problem.

Well, as I say, Mr. Chairman, the Department of Justice, the Antitrust Division in particular, looks forward to working with the committee and indeed with the industry group in perfecting an effective set of remedies for this problem, which we regard as a serious one. While we are unable to support the present draft, for the reasons I have indicated, we are most enthusiastic about the bill's underlying purpose.

I will desist in my statement at this point, but I will be happy to attempt to respond to any questions you may have, Mr. Chairman.

[The following was received for the record:]

PREPARED STATEMENT OF WILLIAM F. BAXTER, ASSISTANT ATTORNEY GENERAL
ANTITRUST DIVISION

Mr. Chairman and Members of the Committee:

I am pleased to be here this morning to discuss with you S. 2428, a bill intended to strengthen the laws against counterfeiting of goods bearing federally registered trademarks.

While the Department of Justice strongly agrees with the bill's objective of minimizing the successful counterfeiting of trademarked goods, we have insufficient information to determine the extent of the counterfeiting problem or the best means of dealing with it. Hence, we are not today in a position to recommend whether new legislation is needed in this regard, or if it is needed, what specific form it should take.

Essentially, S. 2428 would, for the first time, make it a federal crime to "traffic" 1/ or attempt to "traffic" in goods bearing a counterfeit mark, knowing the mark to be counterfeit. 2/ For individuals, the offense would be a felony with a maximum penalty of five years imprisonment or a $250,000 fine,

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1/ The term "traffic" as defined in the bill is to (1) "transfer, assign, or in any manner dispose of, or transfer to another for anything of value"; or (2) "advertise, promote, or in any manner offer to dispose of, or to transfer or assign to another as consideration for anything of value"; or (3) "receive, possess, transport, or in any manner exercise control of, with intent to so transfer, assign, or dispose of, or with intent to assist another in so doing."

2/ Although trademark trafficking is not at present a federal crime, several state laws make it a misdemeanor. See Harrison, Penal Actions for Trademark Infringement, A Survey of Statutes and Cases, 57 Trade-Mark Rep. 285 (1967); e.g. N.Y. Gen. Bus. Law, §279-n.

or both; for corporations, it would be a misdemeanor with a maximum $1,000,000 fine.

The bill also supplements the civil remedies now available under the Lanham Act for infringement of trademark rights. 3/ A trademark owner who successfully prosecuted such a violation and established injury from trafficking could recover treble damages, the defendant's profits, costs of investigating and prosecuting the violation, and prejudgment interest. Moreover, any person found guilty of criminal trafficking would be estopped in a subsequent civil proceeding from denying the essential allegations of the criminal offense.

Trademarks play a crucial role in our free market economic system. By identifying the source of goods or services, marks help consumers to identify their expected quality and, hence, assist in identifying goods and services that meet the individual consumer's expectations. Counterfeit marks deceive the public as to the true source of goods or services, thereby threatening to diminish the value of the marks and seriously undermining the essential purpose the trademark laws serve. At the same time, counterfeiting deprives trademark owners and

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3/ Compare subsection (c) of the bill with 15 U.S.C. §§ 1114, 1116-18. A civil claimant recovering treble damages under the bill, however, would be barred from also obtaining damages under the Lanham Act. On the other hand, subsection (f) would permit additional criminal penalties or civil remedies under other laws.

their distributors of sales and profits they could have earned on the authentic trademarked items. Not only is trademark counterfeiting injurious in these direct ways but, if freely permitted, it would eventually destroy the incentive of trademark owners to make the investments in quality control, promotion and other activities necessary to establishing strong marks and brand names. It is this result that would have severe anticompetitive consequences.

While the Department strongly opposes counterfeiting, we cannot determine from the information available to us the extent to which trademark counterfeiting occurs or whether existing remedies are insufficient to control it. We recognize, however, that counterfeiting is difficult to detect in many situations and that it may offer the potential for high profits. It is important, therefore, that there be strong sanctions against counterfeiting, and that there be adequate means of detecting counterfeiting if those sanctions are to be effective.

In this regard, I think it important to consider that the trademark counterfeiting problem may, at least in part, be related to what I regard as the present unsatisfactory state of antitrust law regarding vertical distributional arrangements, such as resale price maintenance. As I am sure you are aware, the Supreme Court in GTE Sylvania has held that vertical territorial arrangements are to be judged by the so-called rule of

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reason. 4/ No decision has explicitly overruled the earlier cases applying a per se prohibition to resale price maintenance, and the Supreme Court has recently indicated in dicta that resale price maintenance continues to be subject to a rule of per se illegality. While I am not here today to discuss GTE Sylvania or other cases in detail, I do want to note how a per se approach can have unintended effects on a manufacturer's ability to enforce his trademark rights.

In my view, the current hostile approach to resale price maintenance will often prevent manufacturers from exercising that degree of control over the distribution of their products necessary to enable them to detect and combat undesirable activity such as trademark counterfeiting. For example, if manufacturers individually numbered or coded trademarked goods, they might more easily be able to detect counterfeit marks on goods that are either not coded or improperly coded. However, many firms are reluctant to code goods in part because of fear of possible antitrust liability. This fear emanates from the possibility that distributors could attack coding as a device to detect price discounters and thereby help to maintain unlawful resale price maintenance schemes. Thus, replacement of the per se

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4/ See Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 38 (1977).

treatment of resale price maintenance with a structured rule of reason approach would remove--or at least substantially reduce--the fear of antitrust liability in this regard and could result in greater use of coding to improve detection of counterfeiting.

By the same token, non-price vertical arrangements, such as exclusive territorial arrangements, provide manufacturers with means of controlling the distribution of their products, and hence, could enable them better to detect the sale of counterfeit goods by others. In our judgment, however, the per se rule against resale price maintenance deters not only the use of resale price maintenance but also the use of other vertical distributional controls, whose legality and desirability has not been in serious dispute since GTE Sylvania. While the Supreme Court has held that such non-price vertical arrangements are now to be judged under the rule of reason, any retailer who refuses to abide by such arrangements can allege that the vertical restrictions were undertaken with the purpose of effect of controlling the resale price of the product. Since non-price vertical restrictions often do have the effect of raising price (and also improving the quality of the product or the circumstances of its distribution), such allegations may well convince fact-finders lacking business expertise to find a resale price maintenance purpose where none in fact exists. Thus, I believe the per se approach strongly deters trademark owners not only from entering explicit resale price maintenance contracts, but also

from utilizing exclusive territories and a wide variety of other entirely reasonable and concededly lawful distribution controls which would assist detection and control of counterfeiting.

For this as well as the other reasons I previously mentioned, the Department of Justice regards as unsatisfactory the state of the law as to resale price maintenance, and we are reviewing the possibility of asking the Supreme Court to explicitly overrule the cases suggesting per se treatment. Congress, however, may decide that the problem of trademark counterfeiting is severe enough to warrant immediate remedial legislation such as S. 2428. If so, Congress should carefully assess the value and likely effects of each possible sanction and deterrent approach. Ideally, the obligation to enforce trademark rights should rest on the trademark owner; criminal liability involves significant costs to the government and should be enacted only if civil damages and other remedies are inadequate or extremely inefficient in deterring counterfeiting. In our view, Congress therefore should resort to criminal liability only if it determines that it is warranted by the magnitude of the problem and that increased civil sanctions, such as treble-damage liability as provided for in S. 2428, would not adequately deter counterfeiting.

Finally, I want to point out that there are other important, although somewhat more technical, issues presented by the bill

that are still being considered by the Department. Some of these issues relate solely to criminal procedure and administration, areas that are more appropriately addressed by other Divisions of the Department. While we have not yet reached final conclusions on these issues, we expect to provide the Committee with further written comments on them in the near future, and we would be happy to work with you in attempting to achieve the desirable objective of deterring trademark counterfeiting.

Mr. Chairman, that concludes my prepared remarks. I would be happy to address any questions you or the other members of the Committee may have.

Senator MATHIAS. Well, let me seize upon the positive aspect of your testimony.

Your enthusiastic offer to assist us in developing a remedy that will be effective and will be practical and operational, because that is a very important offer on your part and one that I think that we want to accept with equal enthusiasm.

Perhaps one place to start would be in this question of the estimate of loss.

Now, I cited the existence of a Justice Department report which estimates losses at $16 billion; I am told that such a report exists, but I have not actually seen it, as you say you have not. Maybe the first thing you could do would be to inquire within the Department about the existence of that report and supply a copy of it for the record because it would certainly be an extremely valuable contribution.

Mr. BAXTER. Yes, I will see if we can run it down, although it would be helpful, I take it, that someone on the committee staff must actually have seen it in order for the reference to have been made.

Senator MATHIAS. Well, it is in the literature; it is widely quoted; and I think we better find out exactly what the status of it is.

Mr. BAXTER. Yes, I agree with that. Presumably there is a footnote lurking around somewhere.

Senator MATHIAS. You say that criminal action is not usually effective in dealing with commercial problems. When we see the problem of counterfeiting getting to the level that it has with the helicopter rotors, with the brake drums—the things that affect life and safety—it is getting beyond a mere commercial problem. Perfume or silk scarves may be one thing. But equipment upon which human life depends raises a different level of concern.

Now, we have comparable problems in the pharmaceutical field, not dealt with in the same part of the law but analogous problems, and we do impose criminal sanctions in the pharmaceutical field and with some success, do we not?

Mr. BAXTER. Yes, I believe so. I think we have pharmaceutical problems that are indistinguishable from the ones that you are talking about here, with shipments into the country of bogus merchandise marked with the trademarks of established ethical pharmaceutical houses and, as I say, where there is perceptively an issue of health or safety, and why I have no doubt that the criminal enforcement authorities will turn out with enthusiasm. All I am suggesting is that, where it is merely a commercial problem, as this problem to a large degree appears to be, my experience, at least, is that it is often difficult to interest a local U.S. attorney, who has his hands full with organized crime and bank robberies or kidnapings and violent crimes of various kinds, to devote limited resources for this kind of law enforcement.

Senator MATHIAS. It seems to me that the interest of the Congress is to try to stay ahead of the problem. We have now had some experience with the fact that this is a problem which is beginning to affect human health and human life, and that if we can stay ahead of the problem and not have to go through some experience in which a number of lives are lost to demonstrate the problem, then we are shouldering our responsibilities here. That is why I am so grateful for your offer to be of continuing assistance in trying to shape the remedy.

Mr. BAXTER. I did not mean to suggest in my comments that no criminal provisions should be present, but only that if you are going realistically to expect effective enforcement, you should have a stand-alone effective set of private remedies, because I would not expect that criminal remedies would effectively be brought into play, except in the kind of circumstance where life or health is threatened.

Senator MATHIAS. Last year, the Department of Justice testified before this committee in favor of the copyright piracy and counterfeiting bill, which is now law, and the Department spokesman emphasized the increasing involvement of organized crime in record and movie piracy and counterfeiting.

Do you have any information or does the Department have any information that the same experience is true with industries that are being victimized by trademark counterfeiting? Is this an activity in which organized crime is employed?

Mr. BAXTER. I simply am uninformed on that subject and I would be happy to go, and I will go, to the Criminal Division and the organized crime task force and ask whether they have any information on that topic; but I am simply ignorant as to their question.

Senator MATHIAS. Well, as I said earlier, we will hold the record open so that that additional information can be made part of the record.

Now, in the statement of the Association of General Merchandise Chains, which has been submitted prior to the hearing, there is a criticism of section 2(e) of the bill, which allows the district court to issue warrants to the trademark owners for search and seizure of the property and for other matters, if the judge can adduce probable cause to believe that a person is knowingly trafficking in counterfeit trademarks.

The claim is made that this could be used by manufacturers to track down the middlemen that supply the discount retailers with

the manufacturer's products and therefore to tighten their control over where their products are appearing.

Is this a real danger, do you think, of abuse?

Mr. BAXTER. I do not think so. I think the factual statement is accurate. Anything that is going to facilitate self-help against trademark counterfeiting is going to involve enabling a manufacturer to know where his goods are and the hands through which they are passing. But a manufacturer has a wide variety of perfectly legitimate reasons for having that information in any event. It should not be objectionable that he adopts practices that will enable him to gather that information. It should require some actual proof that he is using that information improperly before we exhibit concern about it. So while I do not disagree with the factual statement, I disagree that the factual statement implies the existence of a real problem.

Senator MATHIAS. We are very, very grateful to you, Mr. Baxter, for being with us this morning, and we will look forward to hearing from you on the several points that we have discussed.

Mr. BAXTER. Thank you, Mr. Chairman. I was very pleased to discover, when I walked in this morning, that one of the industry representatives who is deeply involved in this is my old friend, Peter Jones, with whom I have worked in a variety of contexts over the years, and that coincidence will, I am sure, make it even easier and more felicitous for us to work with this group.

Thank you very much.

Senator MATHIAS. Thank you very much.

Senator Grassley?

Senator GRASSLEY. Mr. Chairman, I am not going to be able to participate very long, but I am very interested in this bill, and I have had several of my constituents show an interest as well. So I do not have any questions.

Senator MATHIAS. I might say, before you came into the room, I suggested that the record be held open for 2 weeks so that if there are additional questions, if you have questions for the Department of Justice, you can submit them.

Senator GRASSLEY. Thank you.

Senator MATHIAS. Our next witnesses will be a panel consisting of Mr. Simon Gordine, New York City Department of Consumer Affairs; Mr. Peter T. Jones, who has already been introduced by the Assistant Attorney General; Mr. Vernon Venne, and Mr. Raymond Fink.

Gentlemen, if you will come to the table.

[Pause.]

Senator GRASSLEY [presiding]. Would you start your testimony in the order in which you were introduced, please?

STATEMENT OF A PANEL CONSISTING OF SIMON P. GOURDINE, NEW YORK CITY DEPARTMENT OF CONSUMER AFFAIRS; PETER T. JONES, SENIOR VICE PRESIDENT, LEVI STRAUSS & CO.; CHAIRMAN, INTERNATIONAL ANTICOUNTERFEITING COALITION; VERNON VENNE, SENIOR PATENT ATTORNEY, ASHLAND OIL CO.; AND RAYMOND FINK, ATTORNEY AND PATENT COUNSEL, GATES CORP.

Mr. GOURDINE. I am Simon Gourdine, commissioner of the New York City Department of Consumer Affairs.

Senator, I want to thank you for the opportunity to testify today on Senate bill 2428. I will briefly discuss the importance of this issue to consumers and explain why the New York City Department of Consumer Affairs is involved.

While we certainly recognize that there are serious problems with counterfeit drugs, aircraft parts, and automobile parts, I would like to focus my comments today on the counterfeiting of brand-name apparel.

A shopper who purchases a brand-name item expects a certain quality of merchandise and is willing to pay more for that item. A trademark is, therefore, in a very real sense, an implied warranty to the purchaser that the product is of a certain quality. Often the consumer has come to expect this quality based upon previous purchases of the same brand-name goods. A consumer who is sold counterfeit merchandise instead of the genuine article has been victimized by a fraudulent trade practice as serious as bait and switch, price unconscionability, or any of the more traditional consumer frauds.

I have been advised that the Association of General Merchandise Chains opposes S. 2428 on the ground that it might hamper discount chains in offering a better price to the consumer. No one is more supportive than I am of fair consumer prices and competition between retailers. But the consumer who gets counterfeit goods for his money gets cheated, no matter how low the price. If one effect of S. 2428 is to make discount chains exercise reasonable care to assure quality, then I think that is all to the good.

The Department of Consumer Affairs must make reasonable efforts to protect all consumers. We therefore conducted an undercover investigation of certain retail merchants, particularly those located in the Orchard Street shopping area of Manhattan. For those unfamiliar with Orchard Street, please let me digress for a moment.

Orchard Street has traditionally been a bargain hunter's paradise. For decades, price-conscious New Yorkers and visitors to our city have flocked to Orchard Street in search of lower prices on quality and brand-name merchandise. Because of lower overhead, these merchants often do charge considerably less for brand-name merchandise than the more well-known uptown retail establishments. As the consumers' quid pro quo, they tolerate cramped and crowded stores and forego the many amenities provided by other retailers.

Our department inspectors visited Orchard Street and purchased seven garments labeled Izod LaCoste. Five of these garments proved to be counterfeit. The sellers of the counterfeit merchandise

were then served with violations of the New York City consumer protection law for engaging in deceptive trade practices, while Izod, acting pursuant to a Federal court order, confiscated 85 articles of clothing.

I view this undercover investigation as a success, because the extensive media coverage it generated exposed this problem to millions of consumers and put merchants on notice that the department would not tolerate deceptive selling practices of any kind. It would be naive though to suggest that our enforcement action made even a small dent in the enormous problem of trademark counterfeiting. This problem is clearly international in scope and cannot be effectively confronted on a retail basis. Nor can it be readily addressed by the New York City Department of Consumer Affairs. The department is charged with many other significant responsibilities, so in New York City, the primary enforcement responsibility in this area must fall elsewhere.

Our undercover investigation did, however, demonstrate two important facts. A significant number of retailers are selling counterfeit merchandise, and there is no easy way for consumers to distinguish between counterfeit goods and the genuine articles.

There are, it seems to me, two fundamental remedies for dealing with consumer problems. First, there is the self-help remedy. Consumers should thoroughly research what the market has to offer, comparison shop, and carefully read all documentation that accompanies the transaction. Most importantly, shoppers should be immediately wary of unbelievable bargains or representations. Often, unbelievable is a synonym for unreal.

Second, there is the remedy of Government intervention to be employed when the first remedy is inadequate. This remedy usually takes the form of government regulations or licensing, accompanied by strong sanctions to encourage compliance. This remedy, of course, is intended to protect consumers when they cannot protect themselves.

In the case of trademark counterfeiting, neither remedy works. Almost no amount of research, comparison shopping, or caution could prevent a consumer from purchasing counterfeit merchandise on Orchard Street. When Izod representatives were asked how a consumer could recognize a counterfeit garment; they suggested that the quality of the retail establishment and the price paid were reliable indicators of a garment's authenticity. In other words, Izod claimed that only consumers who buy from a well-known merchant and pay top dollar could be assured of having purchased a genuine article. Although this may be good advice to shoppers considering the purchase of a LaCoste shirt at an incredibly low price from a street vendor, it is not a reliable test for Orchard Street. Department inspectors were able to purchase genuine garments there at substantial savings and the shops in which our inspectors made these purchases were physically indistinguishable from the shops selling the bogus goods.

It is clear too that Government's attempt to intervene in this area is deficient. The enforcement provisions contained in the Lanham Act are too weak to serve as an effective deterrent. Remedial legislation incorporating sufficient sanctions to counterbalance

the profitability of trademark counterfeiting must therefore be enacted.

I strongly support S. 2428 for two important reasons. First, it provides the means necessary for trademark registrants to effectively enforce their rights in court. Second, because of its stringent civil and criminal penalties, it will establish a significant disincentive for those who might engage in counterfeiting.

Except for the most serious instances of counterfeiting, such as the manufacture and sale of bogus safety and health-related products, this is a problem that can best be addressed by private enterprise. While not necessarily always the case, in this instance I believe consumers and business share a common interest. We are both anxious to make sure that shoppers get their money's worth and receive the goods as represented them. With respect to trademark counterfeiting, the Department of Consumer Affairs primary objective of ferreting out fraud and deception in the marketplace is best accomplished by private industry.

I therefore urge this committee to recognize the seriousness of this problem, to accept that no self-help remedy exists for consumers, and to favorably consider S. 2428.

Thank you.

[The following was received for the record:]

PREPARED STATEMENT OF COMMISSIONER SIMON P. GOURDINE

Introduction: Jurisdiction of New York City Department of Consumer Affairs

Mr. Chairman and members of the Committee, thank you for the opportunity to testify today on Senate Bill 2428, the "Trademark Counterfeiting Act of 1982." At the outset of my testimony, I will briefly outline the legal jurisdiction of the New York City Department of Consumer Affairs, and explain how we came to be involved in this important issue.

The New York City Department of Consumer Affairs was created by the New York City Council in 1968.[1] Our enabling legislation combined the City's Departments of Markets and Licensing, and gave the new Department jurisdiction over "all laws relating to the advertising and offering for sale and the sale of all commodities, goods, wares and services."[2] The following year the Consumer Protection Law of 1969[3] was enacted. This law afforded the Department similar powers to those of the Federal Trade Commission, including the mandate to enforce City law against deceptive trade practices. A deceptive trade practice is defined in relevant part as any representation "that goods or services have sponsorship, approval, accessories, [or] characteristics...that they do not have."[4] As a result, the Department of Consumer Affairs is the proper municipal agency to take enforcement action against retail establishments offering counterfeit goods for sale in New York City.

The Department's Enforcement Efforts Regarding Trademark Counterfeiting

The Department was contacted by the International Anti-Counterfeiting Coalition early this summer. We were requested to study the problem of trademark counter-

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1 NEW YORK CITY CHARTER, Chapter 64 (1981).

2 Id. § 2203(d).

3 NEW YORK CITY ADMINISTRATIVE CODE, Chapter 64, Title A (1981).

4 Id. § 2203d-2.0(i).

feiting and to submit testimony to this Committee. While I recognized the significance of this problem, it was not immediately apparent what expertise a local consumer agency could offer this Committee regarding what is clearly an international problem. I came to recognize, however, the enormous implications trademark counterfeiting has for consumers. These implications are especially severe with respect to the counterfeiting of health and safety related products such as drugs, automobile brakes and aircraft parts. I am informed by the Coalition that ungenuine drugs have been responsible for at least twelve deaths, as well as several cases of paralysis and suicide.[5] This most serious type of trademark counterfeiting obviously cannot be addressed by a local consumer agency.

The sale of counterfeit brand name apparel, watches and the like, while not as life-threatening a problem, does seriously affect consumers. A consumer who purchases a brand name item expects a certain quality of merchandise, and is willing to pay more for that item. A trademark is, therefore, in a very real sense an implied warranty to the purchaser that a product is of a certain quality. Often the consumer has come to expect this quality based upon previous purchases of the same brand name goods. A consumer who is sold counterfeit merchandise instead of the genuine article has been victimized by a fraudulent trade practice as serious as bait and switch, price unconscionability, or any of the more traditional consumer frauds.

The Department of Consumer Affairs must make reasonable efforts to protect all consumers. I therefore agreed to cooperate with industry in order to illustrate the growing problem of trademark counterfeiting. The Department was soon after contacted by representatives of Izod Lacoste with respect to the

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[5] INTERNATIONAL ANTI-COUNTERFEITING COALITION, THE TRADEMARK COUNTERFEITING ACT OF 1982: PROPOSED NEW LEGISLATION TO COMBAT COMMERCIAL COUNTERFEITING, page 6, (June 1982).

counterfeiting of their merchandise, particularly in the Orchard Street shopping area of Manhattan. For those unfamiliar with Orchard Street, let me digress for a moment. Orchard Street has traditionally been a bargain hunter's paradise. For decades, price-conscious New Yorkers and visitors to our City have flocked to Orchard Street in search of lower prices on quality and brand name merchandise. Because of lower overhead, these merchants often do charge considerably less for brand name merchandise than the more well-known uptown retail establishments. As the consumers' quid pro quo, they tolerate cramped and crowded stores and forego the many amenities provided by other retailers.

I was particularly bothered by Izod's allegations of counterfeit merchandise for sale on Orchard Street. Such occurrences could detract from the Street's well-deserved reputation, and discourage price-conscious consumers from shopping there. I decided to send undercover investigators to purchase "Lacoste" shirts and sweaters from various Orchard Street merchants, and asked Izod to determine whether this merchandise was counterfeit. Our investigators made purchases at seven different stores. Upon their return, five garments were identified by Izod as counterfeit. Let me emphasize that two genuine "Lacostes" were purchased, and that they were offered for sale at discount prices. However, our undercover investigation demonstrated two important facts: a significant number of retailers were selling counterfeit merchandise, and there was no easy way for a consumer to distinguish between counterfeit goods and the genuine articles.

The Consumers' Dilemma

There are two fundamental methods for dealing with a consumer problem. First, there is the self-help remedy. Consumers should thoroughly research what the market has to offer, comparison shop and carefully read all documentation that accompanies a transaction. Most importantly, shoppers should be immediately wary of unbelievable bargains or representations. Often, unbelievable is a synonym for unreal. Second,

there is the remedy of government intervention to be employed when the first remedy is inadequate. This remedy usually takes the form of government regulations or licensing, and is intended to protect consumers when they cannot protect themselves.

In the case of trademark counterfeiting, neither remedy works. Almost no amount of research, comparison shopping or caution could prevent a consumer from purchasing counterfeit merchandise on Orchard Street. Following the identification of the goods as counterfeit, representatives of Izod and the Department met with various members of the media to release the findings of the undercover investigation. The media were particularly interested in how a consumer could recognize a counterfeit garment. Izod first suggested that the "quality" of the retail establishment and the price paid were reliable indicators of a garment's authenticity. In other words, Izod claimed that only consumers who buy from a well-known merchant and pay top dollar can be assured of having purchased the genuine article. Although this may be good advice to shoppers considering the purchase of a Lacoste shirt at an incredibly low price from a street vendor, it is not a reliable test for Orchard Street: Department inspectors were able to purchase genuine garments on Orchard Street at substantial savings, and the shops at which our inspectors made these purchases were physically indistinguishable from the shops selling the bogus goods.

When asked to provide shoppers with guidelines on how to spot phony goods on an item by item basis, the Izod representatives explained that they did not wish to provide a "manual for counterfeiters." While I understand Izod's unwillingness to make this information public, the result is to leave the consumer defenseless, without the means to distinguish between real and fake garments. I will resist advising consumers that the only solution to this problem is to shop in more expensive stores. The consumer has a reasonable expectation of saving money on Orchard Street, and that expectation should not be discouraged. The understandable reluctance of the manufacturer to provide consumers with the information necessary to be a wise shopper not

only brings us back to the days of caveat emptor, but means that even the most intelligent consumer can be victimized by counterfeit merchandise.

The undercover investigation also demonstrated that the government has been largely unsuccessful in its attempts to remedy this problem. The relative ease with which we were able to locate counterfeit merchandise and the similar experiences of industry illustrate the problem's prevalence. I will further discuss the necessity for stronger legislation below.

Significance of Enforcement Action

Department of Consumer Affairs inspectors and Izod's private investigators returned to Orchard Street following the determination that certain goods were counterfeit. Our inspectors served these sellers of counterfeit merchandise with notices of violations under the Consumer Protection Law, while Izod, acting pursuant to a Federal Court order,[6] confiscated 85 additional articles of clothing. Violations of the New York City Consumer Protection Law are punishable by fines of up to $350; knowing violations are punishable by a $500 fine.[7] The Department maintains that each shirt constitutes a separate and distinct violation.

The enforcement sweep had several salutary effects. First, the action generated extensive media interest and was characterized as an "alligator hunt" by various newspapers and numerous television and radio stations. This press coverage informed millions of New York Metropolitan area residents of the trademark counterfeiting problem, and forewarned consumers to be very skeptical of the most unbelievable bargains. Second, New York City retailers have been put on notice that the Department of Consumer Affairs will not tolerate the offering for

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6 Lacoste Alligator, S.A. v. Pioneer Shirt Co., Inc., 82 Civ. 5633 (S.D.N.Y. 1982).

7 NEW YORK CITY ADMINISTRATIVE CODE, Chapter 64, Title A s 2203d-4.0 (1981).

sale of counterfeit merchandise or any false representations involving the sale of goods. I believe that our action will serve to reduce the number of retailers who believe they can offer counterfeit goods with impunity. Finally, this joint action with Izod will help foster cooperation between consumer groups and industry, both of which share an interest in providing consumers with genuine quality merchandise.

The Private Sector Is The Best Mechanism For Protecting Trademarks

However, it would be naive to suggest that our enforcement action has made even a small dent in the enormous problem of trademark counterfeiting. While no exact figure on the amount of dollars involved in this problem exists, estimates range into the billions.[8] Trademark counterfeiting is international in scope,[9] with many of these goods imported from Asia.[10] It is clear that this problem cannot be exclusively confronted on a retail basis, and that more sweeping measures are necessary.

Nor can the problem of trademark counterfeiting be regularly addressed by the New York City Department of Consumer Affairs. As I mentioned above, the Department is charged with many other significant responsibilities, and these responsibilities must take precedence over the issuance of violations to retailers selling counterfeit apparel. We handle over 100,000 consumer complaints and inquiries each year, and our weights and measures responsibilities require us to regularly police more than 21,000 retail food establishments. The Department also administers and enforces licensing statutes applying to 74 types of businesses or activities, and concentrates its enforcement of the Consumer Protection

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[8] CONG. REC. S. 3929 (daily ed. April 22, 1982) (remarks of Sen. Mathias).

[9] "The Pirating of Brand Goods," New York Times, March 3, 1981 at D2.

[10] Kaikati and Labarce, "Beware of International Brand Pricary," Harvard Business Review, March - April, 1980 at 52.

Law on false and deceptive advertising, consumer credit, and business practices that affect low income consumers.

The Department must order its priorities and intelligently use its resources. It is frankly more important to devote enforcement and adjudicatory personnel to exposing and remedying a Harlem furniture store's practice of offering illegal lay-a-way plans than to the regular policing of counterfeit Lacoste shirts sold on Orchard Street. In New York City, the primary enforcement responsibility in this area must fall elsewhere, and I believe that it properly falls on the private sector.

The Inadequacy of Existing Law

Trademark owners have devoted substantial time and money toward protecting their trademarks. Despite their best efforts, however, they have thus far been largely unsuccessful in halting the proliferation of counterfeit merchandise.[11] Judging by industry's vigorous enforcement undertakings and its strong economic interest in protecting trademarks, it is clear that current federal law is insufficient to deal with the growing problem of trademark counterfeiting. A stated purpose of the Lanham Act[12] is "to prevent fraud and deception...by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks."[13] However, this intent has not been accomplished by the existing statutory scheme. Its enforcement provisions are too weak to be an effective deterrent. The Lanham Act provides for only limited civil penalties[14] and does not provide for

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11 See Anderson, "The Big Couture Ripoff," N.Y. Times, (Magazine, March 1, 1981).

12 15 U.S.C.A. s 1051 et. seq. (1982).

13 15 U.S.C.A. s 1127 (1982).

14 15 U.S.C.A. s 1117 (1982).

criminal sanctions. Current law only entitles a trademark registrant to recover, subject to the principles of equity, (1) the defendant's profits, (2) the damages incurred by the plaintiff, and (3) the costs of the action. Courts have discretion to award treble damages and attorneys' fees, but do so infrequently. Indeed, attorneys' fees may only be awarded by the court in "exceptional cases."[15]

Remedial legislation, incorporating sufficient sanctions to counterbalance the profitability of trademark counterfeiting, must therefore be enacted. This legislation should provide for increased civil penalties, and make trademark counterfeiting a criminal offense. The possibility of jail terms and criminal fines are a much greater deterrent than civil penalties alone. The Federal Government need not frequently or regularly prosecute trademark counterfeiters in order for criminal penalties to serve as a deterrent. Just the existence of such sanctions will serve to discourage potential traffickers. Although new legislation should contain significant criminal penalties, it must place the primary enforcement burden on trademark owners. It is clear that these owners welcome such a burden.

The Trademark Counterfeiting Act of 1982

The provisions of S. 2428 include the mechanisms necessary to enable registrants to protect their trademarks. The bill accomplishes this purpose in several significant ways. Most importantly, it provides the incentives for trademark registrants to enforce their ownership rights. Treble damages are mandated, as are recovery of profits and reimbursement for both investigatory and legal fees. The legislation further empowers Federal District courts to order the disposal of counterfeit marks, goods bearing counterfeit marks, and the manufacturing apparatus used in producing such marks. In addition, the bill imposes criminal penalties of up to $250,000 and five years in jail for a convicted individual, and fines of up to one million dollars for a guilty corporation.

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15 Id.

The private attorney general concept embodied in S. 2428 has won almost unanimous acceptance from the states as a means of enforcing their consumer fraud laws.[16] Affording individuals a private right of action when victimized by a deceptive act or practice was an idea that came into vogue during the 1970s. State legislatures recognized that overburdened attorneys general could no longer serve as the exclusive means of enforcing consumer fraud laws, and that private enforcement was appropriate.

In 1980, New York became the forty-third state to enact a private right of action.[17] This legislation was vigorously opposed by various industry and business groups on the grounds that it would result in a plethora of lawsuits, often frivolous, solely to advance the consumer's personal interest and to harass the merchant. Similar concerns may be voiced with respect to S. 2428, but experience demonstrates that such concerns are unfounded. Litigation is too expensive to be frivolously commenced, and in the more than two years since the enactment of New York's private right of action, there has been no noticeable run on the courts. Other states have had similar experiences.[18]

Instead, consumer advocates argue that private attorneys general statutes have a strong deterrent effect, preventing consumer fraud before it occurs. Just the threat of possible lawsuits, which in New York could involve minimum damages, treble damages and legal fees,[19] is enough to discourage violations. I believe a similar benefit will be derived from S. 2428. By significantly increasing civil and criminal penalties and by facilitating private enforcement of the trademark

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16 See, Traiger, "Consumer Fraud Laws in New York Require a Private Right of Action," New York Law Journal (March 17, 1980, p. 1).

17 New York General Business Law ss 349(h), 350-d(3) (McKinney Supp. 1981-82).

18 See, Comments, "The Private Remedy Under Oregon's Unlawful Trade Practices Act," 56 Oregon Law Review 490 (1977).

19 New York General Business Law ss 349(h), 350-d(3) (McKinney Supp. 1981-82).

laws, Congress will be establishing the same type of deterrent for potential traffickers in counterfeit goods.

Conclusion

I strongly support S. 2428 for two important reasons. First, it provides the means necessary for trademark registrants to effectively enforce their rights in court. Second, because of its stringent civil and criminal penalties, it will establish a significant disincentive for those who might engage in counterfeiting.

Except for the most serious instances of counterfeiting, such as the manufacture and sale of bogus safety and health-related products, this is a problem that can best be addressed by private enterprise. While not necessarily always the case, in this instance consumers and business share a common interest. We are both anxious to make sure that shoppers get their money's worth and receive the goods as represented to them. With respect to trademark counterfeiting, the Department of Consumer Affairs' primary objective of ferreting out fraud and deception in the marketplace is best accomplished by private industry.

I therefore urge this Committee to recognize the seriousness of this problem, to accept that no self-help remedy exists for consumers, and to favorably consider S. 2428.

Senator MATHIAS [presiding]. Thank you very much.

Mr. Jones.

Mr. JONES. It is a pleasure to be before you and to have had a chance to talk with Assistant Attorney General Baxter just a little bit before the hearing started. I share the feeling he expressed to this committee regarding what he calls technical glitches in a first draft, which are always present. Between the Department of Justice and your committee, and any help that we can provide, these are rather easily solvable because there seems to be broad-scale agreement on the objectives. Mr. Baxter himself had some concrete suggestions on ways to do this.

Senator MATHIAS. Well, as I told him, I was encouraged by the fact that he was willing to engage, actively and personally, in working toward perfected drafts.

Mr. JONES. On Mr. Baxter's question, as to the extent of counterfeiting today, he mentioned before the hearings he had not seen the Mike Wallace "60 Minutes," 20-minute program that has been presented twice now in the last year, where they went abroad and also interviewed a number of American companies here at home who gave rough total estimates of billions of dollars. And they had evidence before them on the cameras as to the degree to which their own goods were being counterfeited. Those estimates are not terribly precise. But the fact that this international anticounterfeiting coalition has been growing steadily every year from 15 cor-

porate members now to over 70, including a number of major corporations, is itself some evidence that counterfeiting is a growing problem, as you said. The 20-some companies that Mike Wallace had on that show, each one asserting that millions of dollars of their products were being counterfeited annually, again, is anectodal but still indicative. I have been trying to run some very rough estimates here just to illustrate that if you take the apparel industry alone, and Commerce Department estimates that it is $117 billion in annual sales, take 2 percent of that and 15 or 20 percent markup for a counterfeiter, because his costs are cheaper, and you get to nearly $2.4 billion in sales and one-half of a billion dollars in profits from counterfeiting that way very quickly. And if that is excessive, then my response would be, cut that in half, because nobody knows exactly, and you are still talking about over $1 billion in sales and almost $250 million a year in profits from counterfeiting at a 1-percent figure. In any event, the numbers are large; they are larger in certain markets than others.

And as everybody has said, when you are in the realm of health and safety, then the numbers aren't as significant as the individual life that is affected.

I would submit my written statement for your record.

Senator MATHIAS. And it will be included as if read in full.

[The following was received for the record:]

Testimony of Peter T. Jones
Senior Vice President, Legal and External Affairs
Levi Strauss & Co. and Chairman
International Anti-Counterfeiting Coalition

My name is Peter Jones and I am Senior Vice President, Legal and External Affairs, of Levi Strauss & Co., the world's largest manufacturer of branded apparel. I am appearing here today on behalf of the International Anti-Counterfeiting Coalition for which I serve as Chairman, in support of S.2428, the Trademark Counterfeiting Act of 1982, introduced by Senator Mathias. I am accompanied by Raymond Fink of Gates Rubber Corp., Sy Merrill of Bausch & Lomb, Vernon Venne of Ashland Chemical Corp., Ted Brown of A.T. Cross, Bill Steffin of Lyon & Lyon, and Jed Rakoff, counsel for the Coalition.

THE INTERNATIONAL ANTI-COUNTERFEITING COALITION

The Coalition is a group of over 70 corporations and associations, begun in 1978, whose principal purpose is to combat the growing international problem of counterfeiting of trademarked products, particularly consumer goods. Every working day consumers from New York to California are being defrauded of vast sums of money and unwittingly forced to risk use of hazardous products because counterfeiting has become a high-profit, low-risk business. Unless counterfeiters face swift, sure criminal sanctions, the incentive for this spreading consumer abuse will continue unabated.

Commercial counterfeiting is the practice of placing a false trademark on a product, often of inferior quality, and thereby making the product superficially

indistinguishable from the genuine article. With a few exceptions, such as the obvious counterfeit -- the $300 Gucci bag being offered for $30 -- the consumer then purchases the product, relying on the counterfeit version of a well-known mark, and much later learns to his dismay that he has been defrauded.

Because counterfeiters concentrated their early efforts principally on the apparel, luggage, jewelry, sporting goods, recording and motion picture industries, the Coalition's initial membership represented those product classes; and the concerns of both consumer and manufacturer were mostly economic. More recently, however, members have come from the automotive, chemical, drug, cosmetic, medical device and electronic industries, thus adding a totally new dimension to the problem -- concern for consumer health and safety.

THE SCOPE OF THE PROBLEM

Counterfeiting is not a new phenomenon. In works of art, in currency, there has long been a lucrative market for unauthorized copies. What is new is the extent to which the counterfeiter has expanded his line to include a wide range of consumer and industrial products, from apparel to drugs, from chemicals to auto parts. What is frightening is the extent to which counterfeiting now is jeopardizing the health and safety of American consumers, not just their pocketbooks. The chances of purchasing a counterfeit record or tape are now estimated to be one in five, a counterfeit pair of sunglasses one in four, a counterfeit Cartier watch even higher; and the growing menace of counterfeit drugs has been well reported in the media in recent months. In 1980

alone, profits from counterfeit apparel approached $1/2 billion.

Inferior agricultural chemicals, bearing counterfeit trademarks of Chevron, one of America's leading producers of such products, virtually destroyed the 1979 Kenyan coffee crop, and with it that country's economy. A few years earlier a fatal helicopter crash in California was traced to a counterfeit replacement part; and the problem has spread to medical devices, such as heart pacemakers and even to the space program. If a product can be copied and sold with a counterfeit trademark at a profit, the odds are very great that such bogus products will find their way into the stream of commerce.

In short, legitimate manufacturers in a wide range of industries as well as their often unsuspecting consumers face a problem that is reaching epidemic proportions. We believe that problem cries out for a legislative solution.

WHAT HAS BEEN ACCOMPLISHED TO DATE

While we believe that legislation is necessary at this time, I do not want to create the impression that manufacturers have been sitting idle as their markets slipped into the hands of fraudulent producers. Quite the contrary. My own company, Levi Strauss & Co. has been working for many years to combat counterfeiting of our products. We employ a worldwide security force and utilize the talents of lawyers in many key jurisdictions. We also are exploring sophisticated new technology that would greatly improve our ability to detect and identify counterfeits, as well as simplify the burden of proof in the courtroom. However, we realized that

what we could accomplish tackling the project on our own was not enough. Thus, in 1978, we helped to form a Coalition of manufacturers who shared our concerns. In the past four years, the Coalition has grown from 15 to 70 members representing a truly diverse product spectrum and has been active in promoting educational activities, information exchange, and creative legal solutions. We supported the anti-counterfeiting amendments to the Customs Procedures Act of 1978 and are actively supporting the U.S. Trade Representative's efforts to bring about adoption of an international anti-counterfeiting code. We expect the Code to be considered by the GATT ministers this fall in Geneva.

THE NEED FOR A LEGISLATIVE SOLUTION

The United States, however, remains the single most lucrative market for counterfeit goods. It is estimated that the total value of counterfeit goods sold in the U.S. now is in the billions annually and is increasing every year. Cutting off this rich market will go a long way toward creating the economic disincentives we believe are critical to reduce the volume of counterfeit products. In our view a most effective means of closing the U.S. market to counterfeits would be passage of S.2428.

Commercial counterfeiting is one of the most lucrative and yet least risky forms of theft. It is one of those rare instances where, under our law, you may steal substantial property rights, get caught and suffer nothing more than a temporary delay in distribution.

There is no federal statute that adequately covers trademark counterfeiting. The basic statute, the Lanham Act,

imposes only limited civil sactions and no criminal penalties even where the counterfeiter has flagrantly violated the law. Although other federal statutes, such as those dealing with mail fraud, misbranding of foods, drugs, and cosmetics, and counterfeit records and tapes can be utilized in particular situations, there is no comprehensive statute outlawing trademark counterfeiting. Even the 1978 amendments to the Customs Procedures Act only reach imported products as they attempt to enter the U.S. and do not contain criminal sanctions. For the domestic counterfeiter, or the retailer who knowingly trafficks in counterfeit goods, there is no truly effective statutory weapon in the prosecutor's arsenal.

S.2428

We believe S.2428 provides an effective solution by combining significant criminal penalties with the likelihood of forfeiture of goods. Any manufacturer, distributor or retailer who intentionally produces or sells products with counterfeit trademarks would fall within the bill's purview. The innocent retailer would not be adversely affected.

Beyond the criminal sanctions, the bill encourages registered trademark owners, acting as private attorneys general, to bring civil actions for damages and attorneys fees. Unlike the Lanham Act, treble damages would be mandatory in such cases. Furthermore, the essential allegations established in any criminal case brought under the bill could not be denied in a later civil action.

Additionally, the bill would authorize federal district courts in their discretion to order seizure and

destruction of the counterfeit products -- a powerful economic disincentive for most counterfeiters. This authority would complement that already available under the Customs Procedures Act and that proposed under the international code.

CONCLUSION

The Coalition believes trademark counterfeiting has become a significant problem with a major impact on the health and safety of American consumers and on the economics of the marketplace. It is a problem whose scope and potential for serious harm are increasing every year. For all these reasons, it is a problem that merits this Committee's attention through legislation such as S.2428.

My colleagues have brief statements to submit after which we would be pleased to respond to your questions. Before they begin, however, I would like to express the thanks of the Coalition for the opportunity to testify before you today.

Mr. JONES. Thank you, Senator. And I thought I would just hit a few of the highlights.

I think that the Department of Justice and the general public needs to be aware of the growing significance stressed in your statement that health and safety are involved in things like tetracycline, vitamins, chemical sprays that destroyed most of the coffee crop of Kenya several years ago, badly made automotive parts, cosmetics that cause illness, other drugs, medical devices. I think there is ample evidence now that criminal sanctions, at least for the health and safety dimensions of the problem, would serve a useful purpose. A number of countries around the world already have criminal sanctions for counterfeit goods. And I can even see certain cases for criminal sanctions where there was sufficiently pervasive economic commercial counterfeiting, where the public was being ripped off in their pocketbooks on a wide scale. There a local attorney general, in spite of other demands, since the squeaky wheel gets the grease—with the media covering it and the public and consumer advocates engaging in a major outcry, I would see both the FBI and U.S. attorneys putting resources on this to stop it and using their criminal sanctions to do so, as they actually have in New York City in certain cases. It is a major problem.

One thing struck me about the initial opposition to this bill by some dissenters. I start with the assumption that the discounting chains are operating on a basis of good faith, integrity, legitimate concern that their own purposes of providing goods at lower cost to consumers are not being interfered with. I am hopeful, because of that, that some reconciliation, some resolution of these concerns, can be worked out. But I would in all frankness have to add that under your bill, the only time the sanctions, criminal or civil, come into effect is when a discounter or any other retailer is on notice that he is in possession of counterfeit goods. It seems to me at that point, for him to claim that anything should be done with these goods other than taking them off the market and destroying them or giving them away to charity, is not living up to his own stated concern for his own customer, the general public.

The remedy that any retailer—I do not care whether he is a discounter or nondiscounter, if he discovers he is in possession of counterfeit goods, is not to palm them off on the public. He cannot responsibly just say that because I was innocent at the time when I purchased them that I should have the right to get rid of them and recover my economic loss. We can reconcile our differences if they will once agree with that, that once they are on notice that they then have a responsibility not to sell counterfeit goods to consumers. However innocently, with or without knowledge, one can be duped, one can be negligent, one can also be witting. In all cases the consumer must be protected. This is so even assuming that the retailers were absolutely innocent. It seems to me that once they then come on notice that they are in possession of counterfeit goods, their remedy is not to sell them to the consuming public. Their remedy is to go after the jobber, after the counterfeiter and if that does not work, it seems to me and to us that stolen goods and counterfeit goods are in the same bailiwick. For 500 years, the common law of England and now the common law of the United States has said if we are unfortunate enough to buy stolen goods,

any of us, and we do not know it at the time, it is our hard luck and we are stuck.

When you purchase counterfeit goods, we would argue that those counterfeit goods not only stand on a par with stolen goods but in many ways they are a more serious threat to the public. If you have stolen goods, at least they are the genuine product. If you get counterfeit goods, they are shoddy and they are poor quality and they may also represent a threat to health and safety. So that to treat counterfeit goods that are of poor quality and possibly damaging to health and safety, on a lesser level than you would treat stolen goods, to us, does not make much sense as a matter of public policy.

We have some other specific comments on the testimony of that discounters association which I would like to add, which were not included in my original testimony.

[The following was received for the record:]

SUPPLEMENTARY TESTIMONY OF PETER T. JONES, CHAIRMAN OF THE INTERNATIONAL ANTICOUNTERFEITING COALITION

AGMC Position	IACC Position
1. Consumers are harmed by counterfeits; trademark owners are harmed by counterfeits; retailers are harmed by counterfeits. However, preventing that acknowledged harm is less important than preventing the alleged anti-competitive effect of S. 2428.	1. The AGMC testimony itself admits that counterfeits are presently harming consumers, retailers and manufacturers. It criticizes S. 2428 without offering any alternative but the status quo.
2. S. 2428 would eliminate sources of trademarked products for discount retailers. Discount retailers should have unrestricted access to such sources.	2. S. 2428 does not ban closeouts. It does not restrict purchases of trademarked goods, it merely encourages the retailer to take reasonable steps to determine whether he is dealing with a reputable source of genuine trademarked goods. Counterfeits are no better than stolen property, and from the standpoint of the consumer, perhaps much worse because of their potential for both physical and economic harm. The retailer who receives stolen property can hardly argue that criminalizing that practice is anti-competitive; he is responsible for checking his source. There is no reason to have a lower standard of responsibility with regard to counterfeits. The bill will actually help the discount retailer by driving the counterfeiter out of the marketplace and raising the likelihood that the trademarked goods that the retailer purchases are genuine.
3. S. 2428 will allow trademark holders to engage in resale price maintenance.	3. The only sources of merchandise this bill will drive out of business are illegal sources, i.e. the trademark thieves, illegitimate wholesalers and middlemen will have a greater degree of assurance that the goods they offer to discounters are genuine. This bill does absolutely nothing to encourage resale price maintenance.

AGMC Position	IACC Position
4. Trademark holders would use the bill to make false charges for trafficking in counterfeit goods against discounters and their suppliers.	4. The trademark holder bears the burden of proof of intent. Malicious prosecution would be available where false charges are made. This argument assumes improper motives and weakness in the legislation without any basis in fact.
5. The ex parte seizure provision is unfair.	5. Ex parte seizures are necessary to prevent disposal of counterfeits in advance of court action. The seizure merely brings the goods before a neutral judge for a determination.
6. Retailers will lose the value of seasonal goods which were seized in error and later returned. Bad publicity will damage them.	6. The retailer must bear some responsibility for knowing the source of his goods, whether seasonal or not. The AGMC position virtually asks for a blank check to buy anything from anyone and then sell them without any responsibility even if the goods prove to be less than genuine. As previously noted, there is little difference between such a practice and knowingly receiving and/or selling stolen property.
7. The bill is unnecessary; existing law is adequate.	7. If that were so, why is counterfeiting so profitable? Why is it spreading both geographically and in terms of production lines? Existing civil penalties are definitely inadequate.
8. Imported counterfeits already are subject to federal criminal law allowing seizure. Most counterfeits are imported, therefore, there is no need for domestic criminal sanctions.	8. Why should you treat domestic counterfeiters better than those overseas? Many products are counterfeited within the U.S. and the U.S. is the biggest market for counterfeits. Only strict criminal sanctions will bring the problem within the U.S. under control.

Mr. JONES. And in summation, I would say that this committee and the Congress once again has an opportunity to do something where the United States takes the lead. Two years ago, the U.S. Customs Procedures Act was modified by the Congress to provide that when imported counterfeit goods come in, they must be seized and confiscated, and if they can be used socially useful by removing the offending trademark, the U.S. law now says you can give them to charity. Otherwise, you have to destroy them.

Well, it was that change in American law that led to the GATT drafting the International Anti-Counterfeiting Code which has now been initialed by most of the EEC nations: Australia, Canada, Japan, and the United States, so our change in our customs law has now provided a base for this international code and heightened attention to the problem worldwide.

I would also hope that both your criminal and civil sanctions in this Mathias-Rodino bill, if passed into law here, could again serve as a model for tighter sanctions and better enforcement overseas as well on domestic counterfeiting.

Senator, thank you very much.

Senator MATHIAS. Thank you, Mr. Jones. We will reserve questions for the whole panel.

Mr. Venne?

Mr. VENNE. Good morning.

I am Vernon Venne, senior patent attorney for Ashland Oil, Inc., and trademark counsel for its division, Valvoline Oil Co. Valvoline is a national and international leader in the manufacture and sale of products for maintaining and servicing motor vehicles. Its products include filters, chemicals and I believe most importantly, lubricants. Its products are sold throughout the world in 96 countries.

Product counterfeiting is of great concern to Valvoline, especially in this international trade. It is this concern that has brought Valvoline to become a member of the International Anti-Counterfeiting Coalition and to come here today to testify in support of S. 2428.

Valvoline's experience with product counterfeiters is, I believe, in some respects, a little different than some other cases which will be reported here today.

First, the product that is usually counterfeited, a 1-quart can of motor oil, is not especially expensive. As I am sure you are aware, the value of a product cannot always be gaged by its purchase price. Here the product is intended to protect one of the consumer's most expensive investments, their motor vehicle.

Second, the Valvoline trademark is not a status symbol in the way that sometimes trademarks for apparel or for jewelry or luggage can be. A consumer will not buy a Valvoline brand product in order that others will recognize their good taste. Rather, the consumer will buy a Valvoline product because he knows that he can rely on the high standard of quality associated with that product and it is this standard of quality which is a very fragile asset upon which the counterfeiter preys.

You might ask yourself why a product like motor oil would be counterfeited? Well, I am not sure of the answer to that, but I would suggest that it is due in large part to Ashland's and Valvoline's investment in the quality of its product and in making the public aware of that quality. In the case of Valvoline motor oil, this public awareness of quality throughout the world——

Senator MATHIAS. We will not charge you anything for that commercial. (Laughter.)

Mr. VENNE. I was told by my management I had to put that in in order to have my trip paid for. (Laughter.)

We have gained our reputation through the sponsorship of championship racing and the various teams and drivers that participate in these events on a worldwide basis. For example, Valvoline is very highly involved in automobile racing such as the Grand Prix series and the Indianapolis 500. The intent of the counterfeiter is to trade upon that fame and to pass off to the public its own merchandise without having made either the financial investment or the commitment to high quality that Valvoline has made.

This, of course, subjects the consumer's investment in his automobile to great jeopardy because there is no assurance that the quality of the counterfeit motor oil will approach that of Valvoline motor oil or in fact that the counterfeit oil will not be contaminated with harmful elements.

I have brought with me today for your inspection an example of the type of counterfeiting which Valvoline has encountered. This example originated in Taiwan. Our concern about counterfeit activities in Taiwan and in other foreign countries is another reason why Valvoline supports S. 2428.

Valvoline anticipates that with the passage of legislation like S. 2428 in the United States, an influence on other countries in the world to enact similar legislation or to enforce legislation which is already on their books, may be provided. This, of course, will include the very stiff punitive remediable provisions which are a part of S. 2428.

Although I cannot be sure that the enactment of legislation like S. 2428 would encourage every country to enact similar legislation or to enforce similar legislation, I would submit that the absence of legislation like S. 2428 in the United States may serve as a severe impediment to other countries in enacting or enforcing similar legislation.

I would submit that the United States is recognized throughout the world as a leader in the way its legal system addressed emerging problems. I believe that the enactment of S. 2428 can only serve as a positive influence upon other countries who are asked to enforce or to enact similar legislation.

On a personal note, I will close by saying that until yesterday, I was unaware of any opposition to this legislation. Personally, I still cannot fathom why anyone other than a product counterfeiter would be opposed to it. I am still not aware that there is any actual opposition to the intent and to the purpose of this legislation which is to put product counterfeiters out of business and to protect the trademark owner and the general public.

I thank you for your kind invitation to speak here today, Senator, and for your attention.

[The following was received for the record:]

TESTIMONY OF VERNON F. VENNE

ASHLAND OIL, INC., VALVOLINE MOTOR OIL DIVISION

ANTI-COUNTERFEITING LEGISLATION

I am Vernon F. Venne, Senior Patent Attorney for Ashland Oil, Inc. and Trademark Counsel for Ashland's Division Valvoline Oil Company. Valvoline is a national and international leader in the manufacture and sale of products for maintaining and servicing automobiles and other vehicles. These products include lubricants, chemicals and filters. Valvoline is one of the top five marketers of motor oil on a world-wide basis and is particularly strong in the "do-it-yourself" market, a market where the buyer of the oil is also the user. These do-it-yourself purchasers are the reason brand recognition and a reputation for high quality is of utmost importance to Valvoline.

Valvoline's products are sold in 96 countries under the primary brand VALVOLINE. The containers for the products which Valvoline sells also bear various other brands well, for example, a V logo. The packaging design itself integrates the brands and other materials. The packaging design is used uniformly throughout the world and is readily recognized by the purchasing public.

Product counterfeiting activities are of great concern to Valvoline, especially in international trade. It is this concern that promoted Valvoline to become a member of the International Anti-Counterfeiting Coalition, and to come here today to testify in favor of S2428.

Valvoline's experience with product counterfeiters and the impact of such counterfeiting on Valvoline and on the consuming public, is, in some respects, different than other cases which have been and will be brought to your attention today. First, the product which is counterfeited - typically a 1-quart can of motor oil - is not particularly expensive. Of course the value

of a product cannot be measured in terms of cost alone. In this case the product sold under the VALVOLINE brand, specifically motor oil, are needed to protect one of the average consumers largest dollar purchases - their car or other motor vehicle. The VALVOLINE brand is also not a symbol of status in the way that sometimes brands for various apparel, jewelry and luggage can be. A consumer will not buy a VALVOLINE brand product in order to have his good taste recognized by others. A consumer buys a VALVOLINE brand product because the VALVOLINE brand carries with it a reputation for consistently high quality. It is this reputation for consistently high quality, a fragile asset which can be easily destroyed, which the counterfeiter seeks to misappropriate and exploit. It is the recognition of this standard of quality by consumers upon which the counterfeiter preys. We have in common with all of the other representatives here today testifying in favor of this legislation the fact that our reputation, all of our reputations, are being used by the counterfeiter to defraud the consumer, the party to whom the counterfeit products are pawned off as genuine products. The only party who gains in this transaction is the counterfeiter, and present law contains little, if any, deterrent to the counterfeiter.

You may ask why a product such as motor oil would be the subject of a product counterfeiter. It certainly does not appear to have the profit potential that some other goods which are subject to counterfeiters have. While I do not know the answer to this I would suggest that one factor is Valvoline's success in acquainting the public with the quality of its product. This requires a large investment and committment. In the case of VALVOLINE the public is aware of the high and consistent quality of its products due in part to Valvoline's sponsorship of championship racing. This racing includes automobile racing, motorcycle racing and boat racing. Valvoline is extensively involved in the promotion and sponsorship of auto races such as

the Grand Prix series and Indianapolis 500 Mile Race. The intent of the counterfeiter is merely to hitch a free ride on Valvoline's investment and to be able to sell its motor oil to the public without such an investment. As mentioned before in this process only the counterfeiter wins and both Ashland and the consumer lose. Valvoline's good name and reputation for consistently high quality motor oil is at stake, and the consumer's investment in his motor vehicle is risked because there is no guarantee that the motor oil will approach the quality of VALVOLINE motor oil or that indeed the counterfeit product will not be contaminated with harmful elements.

I have brought with me today for your examination various examples of the type of product counterfeiting which Valvoline has encountered. Close examination will point out that in some instances the counterfeiter has made certain alterations to the basic VALVOLINE motor oil can design. However, I am sure that it will be recognized that the intent is to pass off the counterfeit article for the genuine. Two of the three counterfeit VALVOLINE motor oil cans which I have brought with me originated in Taiwan. Valvoline's concern with counterfeit activities in Taiwan is one other reason why Valvoline supports S2428.

Valvoline anticipates that with the passage of legislation like S2428 that other countries in the world will move to enact similar legislation including the very stiff and punitive remedial provisions which are a part of this legislation. Although the enactment of legislation such as S2428 by the United States may not be helpful in influencing each and every country to adopt similar legislation I would submit that the absence of legislation like S2428 in the United States may serve as a severe impediment to passage of product anti-counterfeiting legislation in foreign countries. I submit that the United States is recognized as a world leader in the way its legal system addresses emerging problems. The enactment of legislation such as that in S2428 can only serve as a positive

influence upon other countries who are presently considering or will be asked to consider in the future similar legislation.

I believe that there is no opposition to this legislation. Quite frankly, I find it impossible to fathom why anyone other than a product counterfeiter would oppose passage of S2428. Its content lies at the very heart of the entrepreneurial spirit which is the essence of the free enterprise system.

Senator MATHIAS. Thank you, Mr. Venne.

Mr. Fink?

Mr. FINK. Thank you, Senator.

Good morning.

I want to thank you for giving me the opportunity to speak on Senate bill 2428. I will give some short remarks, because of our involvement in the safety aspects of this.

I am the assistant secretary and attorney for the Gates Corp. One of our subsidiaries is the Gates Rubber Co. We have 18 manufacturing plants in 12 States; we have 10 manufacturing plants in five foreign countries. Our big forte is that we are the major manufacturer of power transmission belts and hose, power transmission belts such as the V-belts and fan belts. From that, you can see that it is used in automotive applications. They also, however used in agricultural, industrial, mining applications, and petroleum industry.

Our products are sold both for the original equipment and in the replacement market.

In the sense of how the term is used by some of the Federal agencies, such as the National Highway Traffic Administration, our V-belts and hose that find automotive applications are terms "safety related." We feel that though the product failure will not cause catastrophic results, it can impair the safety that is present. In fact, we know that some of our belts are used on helicopter drives. We have not particularly recommended it, but the helicopter manufacturers say that they have safeguards and even failure for the helicopter drive does not, they say, encourage catastrophic results. They say it is only a failure of the tail rotor that will cause this. However, I do not believe I would like to be riding in a helicopter where the belt has given way in driving the main rotor.

The belts are also used in accessory drives for aircraft. They are used in power transmissions—in the power steering. They are used in the compressors which operate the brakes for trucks.

We know and have experienced actual notice and knowledge that our products have been copied. This is especially prevalent in foreign countries. We have found our products--not our products—counterfeit products, with our labels in Taiwan, the Philippines, Thailand, Korea, India. It is very prevalent. This is also occurring in the United States. I think it is becoming more prevalent. It is

one thing to buy say a watch or wearing apparel and find that it only lasts a matter of months, when you are expecting a quality item. I think it is quite another matter when you purchase a power transmission belt, a V-belt and find that it lasts a very short period of time.

We have the type of product where we can conduct actual tests. These tests are tests that have been developed by ASTM, SAE, and it is very interesting, whereas you may buy a Gates product or a Goodyear product and expect a certain load life capacity, when you are buying a counterfeited belt that has our label, and we have tested them, in the foreign-made product we find a magnitude of only one-fifth load life capacity. So you can see it is really a piece of cheese that is trying to drive this.

The domestic counterfeit belts are really not much better. We find an order of magnitude of from 15 to 25 percent.

As you probably know, the EPA and the Clean Air Act has required the auto manufacturers to certify certain parts and warrant them to a service level of 50,000 miles or 5 years. California Service Board has gone even further and they are requiring 75,000 miles. When you have an order of magnitude of reduction such as that, you can see that counterfeit belts are not going to meet that requirement of the warranty under the Clean Air Act.

I personally feel that the existing remedies are inadequate. I personally feel that fines sometimes may be a deterrent. On the other hand, we have found, at least in the foreign countries where you catch up with them and they just steal away into the night, so to speak, and they emerge somewhere else. For this reason, even though I am fully aware of working as Mr. Baxter said, that we provide due process, that confiscation in some cases is the only really effective remedy. I feel that we can work out and provide due process to safeguard the fears that were spoken of and may be spoken of later on.

I think it is a very effective provision of this Senate bill 2428. For this reason, and for the reason that I feel that all of us are in favor of the intent and that we can work out the glitches, as Mr. Baxter said, I think that favorable consideration should be given to Senate bill 2428, and certainly we are anxious to help in any way.

Thank you, Mr. Chairman, for the opportunity to speak.

[The following was received for the record:]

Testimony

of

Raymond Fink

Assistant Secretary and Attorney

of

The Gates Corporation

Good morning Mr. Chairman and Members of the Committee. Thank you for giving me the opportunity to present my remarks relating to Senate Bill 2428, a bill known as the "Trademark Counterfeiting Act of 1982."

My name is Raymond Fink. I am an Assistant Secretary and Attorney for The Gates Corporation. One of our companies is The Gates Rubber Company which has 18 manufacturing plants in 12 states and 10 manufacturing plants in 5 foreign countries.

The Gates Rubber Company is the major manufacturer of power transmission belts (i.e. V-belts) and hose which find use in automotive, agricultural, industrial and mining and petroleum industries. The products are marketed for both the original equipment manufacturers and for the replacement markets.

In the sense of how the term is used by the National Highway Traffic Safety Administration, automotive belts and hose are "safety related" products. Though failure of the product will not cause catostrophic results, failure may cause impaired safety conditions. We know that some of our products are used in helicopter applications in which case failure might cause greater impairement.

Commercial counterfeiting is the fraudulent practice of affixing a false trademark to a product for the purpose of making it appear that the product is of a legitimate product brand emanating from a particular source. This practice generally leads the purchaser to believe that a genuine named brand product has been purchased.

Initially the practice began with so-called "luxury" items but soon spread to items of apparel and accessories. Recently the practice has spread to health and safety related articles. Generally, counterfeited articles are of inferior quality and will render only a small amount of the service expected from the genuine product originating from the reputable manufacturer.

Counterfeit V-belts containing the Gates label have been discovered in Taiwan, the Philippines, Thailand, Korea and India among other countries. We do not have manufacturing plants there, but do have distributors in those countries. Similarly such belts have been found in the United States. Whereas the purchaser of such a part may expect that he is obtaining a quality item of known and projected load/life capacities, he often obtains a very inferior quality product which may involve safety concerns. For instance our tests have shown the foreign counterfeits to have an order of magnitude of as low as 5% of load/life whereas the domestic counterfeits have an order of magnitude of from 15% to 25%.

Existing remedies are inadequate. Though proper safeguards should be provided for due process, a preliminary injunction is difficult and time consuming while confiscation is practically non-existent. Fines are not a deterrent in most cases. The counterfeiter can retain possession of the products to be sold later through different or even the same outlets. A method for seizure of counterfeited goods should be provided.

For the above reasons, S 2428 deserves favorable consideration.

Respectfully submitted,

Raymond Fink

Raymond Fink

Senator MATHIAS. Thank you, Mr. Fink.

Let me say that the statements each of you prepared will appear in the record.

Let me ask you a question as to the subject that I raised with Mr. Baxter.

What is the counterfeiting wave that is going on across America? The figure that he and I were talking around was $16 billion a year. Is there any evidence that we have to support that figure or is it greater or less?

What does the industry itself think is involved here?

Mr. JONES. The order of magnitude that I was giving you for apparel, one of the things that I have in my written testimony is up to $500 million a year in illicit profits from counterfeit apparel goods. This rough estimate, represents estimated counterfiet sales of about 2 percent of the $117 billion apparel market at retail in the United States, which is a Commerce Department figure. We cannot prove that with any precision. We can take segments of the apparel industry where we know more and you can extrapolate from that, but it is not an irrational figure to say out of $117 billion apparel industry, if you had one or 2 percent of that counterfeit, you would get at the order of magnitude of a profit of $500 million. And since I said that was a rough estimate by our market research people, you cut that down in half and get down to a quarter billion. You take apparel as only one segment of the economy, and again, one could begin to extrapolate $16 billion as a percentage order of magnitude of the total size of the economy of the United States is not all that large. It at least hangs together and perhaps reflects where the Justice Department got its estimate. Somebody suggested maybe the $16 billion figure had in it counterfeiting and maybe forgery as well, so if you extrapolate out its component parts, the figure for forgery may be small and still leave a very sizeable dollar amount for counterfeit goods.

Senator MATHIAS. Counterfeiting by its very nature has to be discovered, disclosed in order to be identified and accounted. It is a little like the statistics on the crime of rape. We know that there are more rapes committed than are reported.

Mr. JONES. I think that is a fair comment. I brought one sample of a counterfeit blue jeans—Levi Strauss—made in Japan. We picked it up in Colombia, outside of Bogota, Colombia, and a lot of such jeans are destined for the United States.

Only as an illustration, in one of our cases we discovered had factories in Taiwan; it was headquartered in England; it was being run by a group of three Englishmen, one of whom was a member of one of the most distinguished boards of directors of one of the most distinguished companies in Great Britain today. This is a sideline of his; they were producing several million units of jeans; they had a regular marketing plan, a 5-year plan with 2 million units of blue jeans out of Taiwan annually, financial resources in Singapore; the Hong Kong, managing partner of one of the world's largest accounting firms collaborating with them on the accounting side, warehouses in Switzerland that were receiving shipments of 100,000 units that were coming in by ship. This is big business. You are quite right, you could take that as an anecdote is only the tip of the iceberg. We do not know of the others that are going on. But

when you are operating on that magnitude of scale from one operation alone—which we finally broke open and they were retired from the scene—I think the order of magnitude is at least significant and indictive of the size of the problem.

Senator MATHIAS. I do not want to catch you into a selfserving statement like Mr. Venne's quality of value, but what about that pair of jeans that you have in your hand? Is it as good as the Levi Strauss real product?

Mr. JONES. No, no where near our topflight quality. And to try to be fair, nor as good as Wrangler nor as good as Lee. The quality control that goes into the national grand manufacturers', the weight of the denim and the quality, the sewing and the quality of the thread, means that one of the things that I think sells those three national brands is that they last forever. In contrast, this counterfeit stuff, after three washings, frequently is the thing we pick up, the threads dissolve, the pockets fall off and the quality of the denim itself is cheap, very cheap quality denim and does not last.

For example at Levi Strauss & Co. we do run these things through our quality control labs and we do this with our own fabric, and with our own finished product and these counterfeit do not compare with our top flight quality.

So the consumer does get a pocketbook ripoff.

Senator MATHIAS. Any other members of the panel want to comment on the size of the problem?

Mr. FINK. I have no guess as to the order of magnitude but you did bring up a very good point, Mr. Senator, in how is it recognized?

We are finding more and more recognition because the jobber and the dealer are being inundated with disillusioned customers saying, hey, we bought a Gates belt because it is supposed to last for so long and it lasted a period of months. What is going on?

So the recognition of the counterfeiting is greater and greater and it is being discovered. I think the harder chore then that is to find out the source and, perhaps this is why I do feel that under certain circumstances and with proper safeguards that confiscation really is a problem. I am sorry I cannot give you any order of magnitude.

Mr. GOURDINE. Senator, if I may add one point.

I found it interesting taking a look at the Levi jeans with my naked eye and being a consumer affairs official, that I cannot tell what is counterfeit and what is real. That is the point I am trying to make on behalf of the consumers of the city of New York; that is, once they buy this item of poor quality and workmanship, it is only after three washings, as Mr. Jones said, that they find that it starts to fall apart. It is a little late then for them to have any recourse. So today the consumer is faced with a situation where he or she simply does not know the real from the counterfeit, and unless it is addressed at the source, we really are going to have a perplexing and large problem.

Senator MATHIAS. Well, Mr. Jones gave us a kind of a scenario of jeans, of international operations, Britain, Taiwan, Colombia.

Is there any particular locus for this counterfeiting activity? Is it worldwide? Is it scattered broadly or is it concentrated in some areas?

Mr. JONES. We find more amounts of it in certain parts of the world. Our membership, 70 corporations, we periodically poll them and say, what countries are you concerned about? Some of the producers of consumer goods are having problems with manufacture of counterfeit right here in the United States. Again, some of the designer blue jean companies have had a large quantity of counterfeit goods produced right in the United States. And a number of our other members have this problem in the United States.

In addition, certain other countries have gotten "favored" notice. The way you determine this, Senator, is when you say, at our two meetings a year, what countries do you want to concentrate on besides the United States? Taiwan gets very high marks for attention from most of the 70 members of this group. We have been working with the Taiwanese Government who have indicated some sympathy and some concern for this. We are now looking forward to whether that will be followed by effective action.

There also is counterfeiting in Brazil. There is counterfeiting in Mexico. One of the things I might mention is that the GATT ministerial meeting in Geneva this fall is going to address itself once again to the International Anti-Counterfeiting Code that this administration, through Bill Brock and the last administration through Bob Strauss has been very actively supporting.

The one thing that has recently materialized which disturbs us a great deal is that our good friends the Brazilians have raised some technical and other arguments about the Anti-Counterfeiting Code, speaking on behalf of some of the other developing countries as well. Since counterfeiting is a problem at times, in connection with some of these countries, including Brazil and, since it is a worldwide problem and since consumers are seriously impacted by this, I would just like to state for the record that we hope our friends from Brazil can help reconcile these problems, and get on with supporting this international code. Anything that the Congress can do to urge the United States, the administration and others to do their utmost to get this code finally adopted is very important. It has run into some recent unexpected stormy weather in preparation for these GATT administerial meetings, lead by some of our friends from Brazil and we are all quite concerned about that.

Senator MATHIAS. Now, you know that there is great emphasis in this administration on the private sector doing for itself what it should be doing for itself; not having the Government do it for them at public expense.

What is the industry doing itself in this respect and what does it cost industry? Ultimately, isn't it really the consumer who pays the cost of enforcement when a manufacturing business undertakes such an expense?

Mr. JONES. There is a section in my written testimony that addresses that, because we accept the notion that the principal responsibility should remain with the private sector.

A number of our member companies and others spend a good deal of financial resources on investigative work here and abroad and on legal attack under existing inadequate U.S. legislation in

this country and abroad. The Mathias-Rodino bill will provide stiff, sure swift sanctions which are needed if the private sector is to be effective. There also is advancing technology to provide various information which would enable people to distinguish counterfeit goods from the real product, much more readily than before.

We share Bill Baxter's concern that the current per se rule on any form of resale price maintenance really makes it very difficult at times and in certain circumstances to do this. Antitrust counsels around the country are saying you may have a counterfeiting problem but if you use the latest technology, even a serial number or any other technology which enables you to distinguish that and trace it, you may in certain circumstances be inviting unfounded attack, but still very serious attack on you, charging you with per se illegal vertical resale price maintenance. There is a body of literature, well founded, that resale price maintenance is not only not anticompetitive, but there are many schools of thought predictably including the University of Chicago, that believe it is procompetitive. I would simply like to personally endorse Mr. Baxter's concern that perhaps the per se rule merits looking into.

Senator MATHIAS. Any further comments on that question?

If not, we thank you all for being here and for your testimony.

Our next group of witnesses is Mr. Edward M. Brown, manager, International Special Services, A. T. Cross Export Co.; Mr. Seymour Merrall, vice president, Bausch and Lomb; William Stefflin and Jed Rakoff.

Let me explain to you, as I did to the last panel, your statements will be included in the record as if read. I would ask you to summarize them very briefly. We have several more witnesses this morning.

Gentlemen, in what order do you wish to proceed?

STATEMENTS OF PANEL CONSISTING OF EDWARD M. BROWN, MANAGER, INTERNATIONAL SPECIAL SERVICES, A. T. CROSS EXPORT CO.; SEYMOUR MERRALL, CORPORATE VICE PRESIDENT FOR ADMINISTRATIVE SERVICES, BAUSCH & LOMB CORP.; WILLIAM C. STEFFIN, ESQ., LYON & LYON; AND JED RAKOFF, ESQ., MUDGE, ROSE, GUTHRIE & ALEXANDER

Mr. BROWN. Good morning. I am Edward Brown, manager of International Special Services for A. T. Cross Export Co. I do not know whether all concerned are familiar with Cross. I will avoid a commercial. The Valvoline commercial was too difficult an act to follow. But Cross is a manufacturer and marketer of fine writing instruments in approximately 150 markets worldwide with the overseas factory in the Republic of Ireland.

I rise in support of Senate bill 2428, the purpose of which is to strengthen our laws against the counterfeiting of trademarks.

Since I am not a lawyer, I will leave the specific language of the bill for their discussion—and, I trust that they will not disappoint us for failure to have anything to say on the subject.

The thrust of the bill is to make the counterfeiting of trademarks a crime. I fully support that principle, and so does Cross.

The billions of dollars in lost sales to trademark owners, the enormous profits obtained by the counterfeiters and the fraud and

deception of the public are among the most widely discussed evils of counterfeiting. They alone warrant the stricter penalties proposed by the bill.

But there is a more sinister evil of counterfeiting. That is, like an undetected cancer, it slowly threatens to destroy the countless years of effort it has taken the trademark owner to establish its trademark as a symbol of quality.

It is not only the most expensive brands that are targets for the counterfeiters. Companies who, like Cross, have achieved widespread public recognition for making quality products, are also their targets.

Because consumers believe the counterfeit to be the genuine item, when the counterfeit item breaks down, as it often does, because of inferior quality, the quality image of the genuine trademark is tarnished.

Considering the determination and capacity of the counterfeiters to continue their activities and the inability of our laws to deter them, the real threat to the trademark owner is not merely a loss of sales, but a loss of consumer confidence in its products.

Through no fault of the trademark owner, the consumer feels betrayed. And, unknown to the trademark owner, the consumer may say to himself "I will never buy that product again."

Therefore, in the interests of the public, the trademark owner and the Government of the United States are the same—namely, to put an end to the counterfeiting of trademarks by enacting stricter laws such as Senate bill 2428—which would do away with the proverbial "slap on the wrist" to the counterfeiter.

Our company is represented here today in support of Senate bill 2428 not only because of the previously stated benefits to all concerned parties resulting from enactment of this legislation, but also because A. T. Cross Co. has suffered specific losses from such spurious activity. Fortunately, our losses have not been as severe as those experienced by other companies, but our relative success can perhaps be attributed to a substantial expense in the worldwide defense of our industrial property rights.

Through the utilization of expensive investigative services, we have discovered and taken action against foreign manufacturers of counterfeit Cross products which were being shipped to various world markets, including the U.S. market under the cover of falsified documentation. Our expenses during the last fiscal year in combating trademark infringement and counterfeit activity exceeded $500,000, and this fact alone should give witness to the seriousness of the situation and to the strength of our commitment.

It has taken our company over 135 years to build its excellent reputation, and we will continue to consider such substantial expenses worthwhile in the protection of this reputation and the consumer confidence which supports it. We ask that you take favorable action and provide us with this additional weapon with which to do battle with counterfeiters.

I thank you for the opportunity to make these comments to the committee. I have samples with me of counterfeit products, not unlike Mr. Jones' experience, they were made in Taiwan, they were shipped out of Hong Kong, financed out of Singapore to Panama, from which they were being brought to the U.S. market.

Fortunately, all of those people involved in that transaction are no longer in business through private self-help efforts. We think it is important. The problem is widespread.

I have traveled personally in 35 different countries in the last 5 years and have a fairly good knowledge of how serious the problem is and what target the U.S. market is for such activity as the world's largest market. And I will be happy to answer questions, if you have any, Senator. Thank you.

Senator MATHIAS. Thank you, Mr. Brown.

Mr. Merrall?

Mr. MERRALL. Good morning, Senator.

Thank you for your invitation to address the committee on behalf of the International Anti-Counterfeiting Coalition. My name is Seymour Merrall and I am the corporate vice president for administrative services for Bausch & Lomb Corp. of Rochester, N.Y. Bausch & Lomb is the maker of soft contact lenses and contact lens accessories, high-performance sunglasses, binoculars, riflescopes, telescopes and magnifiers sold under the internationally recognized tradenames of Bausch & Lomb, Ray-Ban and Bushnell. We are also in the business of producing optical and electron beam microscopes, spectrophotometers, digital measuring and control devices, and digital recording, plotting and drafting equipment.

The subject of this hearing is of particular concern to Bausch & Lomb with regard to our Ray-Ban® sunglasses. Ray-Ban® sunglasses have become one of the many popular products that are being wrongfully copied by dishonorable persons unwilling to fashion a product and trademark of their own. We feel strongly that this theft of a successful idea shamelessly strikes at one of the fundamentals of free enterprise, fair competition, and that it should be prevented and, where discovered, punished.

I appear today in support of U.S. Senate bill 2428 which would strengthen the laws against counterfeiting of trademarks and thereby help Bausch & Lomb to conduct a healthy business supplying consumers with the superior product that they want to buy. The Ray-Ban sunglass was first introduced in 1937 and was received enthusiastically by a public interested in both style and eye protection. The popularity has grown, and today the Ray-Ban sunglass is treated as a "classic" all over the world. The popularity of our product and its well-known name attracts the counterfeiters, and we have since been taking action to protect our trademark. This action is being was taken by our own investigative staff and outside investigators.

We have only rarely encountered counterfeit Ray-Ban sunglasses in the United States and, even then, we have usually discovered that the glasses were purchased by travelers abroad. As Mr. Fink mentioned in his testimony earlier, the unhappy customer finds he has acquired not a true product but instead an inferior product, and returns it to his distributor who, in turn, returns it to the manufacturer, Bausch & Lomb. When we receive it in our own offices, we find that it is a counterfeit.

Through our investigations we have found that the spurious sunglasses are manufactured in Italy and Taiwan primarily, with international distribution. This is not to say we are not concerned about the U.S. markets. We are indeed. In connection with Italy,

we have found in northern Italy particularly there is a counterfeit industry that basically handles the counterfeiting of optical products. They make regular sunglasses and counterfeit sunglasses. We have in Italy taken action to bring some of the counterfeiters to trial, and we have been successful. Unfortunately, many times, this is overruled by a general amnesty which is declared soon after they have been found guilty and before any fines are levied and jail sentences are carried out. This is most frustrating.

We feel that the United States may be a pivotal shipping point for the foreign manufacturers' distribution into South America. And a counterfeiting incident is still under investigation in Puerto Rico. We need the help of tough anticounterfeiting laws to halt the progress of these thieves.

We feel strongly that the adoption of Senate bill No. 2428 will discourage the growth of our particular concern in the United States while certainly aiding those companies who already have serious counterfeit problems here. The United States must certainly lead the way, as is our usual role, in fighting this crime with tough anticounterfeiting laws.

Thank you, Senator, for your time and interest.

I also have some samples of counterfeit Ray-Ban sunglass products as well as our genuine product for comparisons.

Senator MATHIAS. Thank you, Mr. Merrall.

Mr. Steffin?

Mr. STEFFIN. Thank you, Mr. Chairman.

I thank you for the offer of submitting the written testimony and I will try and summarize briefly this morning.

I am Bill Steffin, an attorney with Lyon & Lyon in Los Angeles. We represent three different members of the International Anti-Counterfeiting Coalition in trademark counterfeiting matters. Over the past few years, I filed over 50 trademark counterfeiting actions in several jurisdictions and have participated in over 100 other investigations of counterfeiting activities. The written testimony I have submitted is directed to the inadequacies of the weapons presently available to the soldier in this field. I would like to use the time allotted to me this morning to emphasize the frustration that develops when one tries to join the legal battle with the recalcitrant trafficker in counterfeit trademarks.

I have addressed the inadequacy of the presently available State and Federal criminal laws in my written testimony. I will concentrate here on the most commonly used legal action. The civil action under the Trademark Act of 1946, the Lanham Act.

The first goal in these actions is to obtain an ex-parte seizure order directing the seizure of goods bearing counterfeit marks and related documents. Some courts grant them, others do not. If the court does not grant the seizure order, the attorney can take the complaint to the counterfeiter and politely ask that the goods and documents be held by him pending a TRO hearing. The results are predictable. You are shown the door, perhaps not too politely, and at the TRO hearing you will learn that the defendant had no goods or documents at the time the notice was given and, in fact, the only such goods he or she ever sold was the one that your investigator bought.

On another occasion, you might convince the court to issue the seizure order only to find that because it is a lower priority civil seizure order, the U.S. marshal is unable to quickly execute it or, worse yet, cannot keep the prearranged appointment between the investigator and the counterfeiter. You may well imagine the feeling as the defendant arrives with $20,000 worth of shirts bearing counterfeit marks, and there is no marshal to seize them.

Because there is no explicit statutory authority, even courts that issue seizure orders do not include a directive to the marshal to search for the goods and documents. It is therefore necessary for the investigators to devise elaborate charades to place merchandise in plain view of the marshal when the order is served. The charades work when you are dealing with small items like watches. They are a little more difficult to implement when you have a truckload of shirts in sealed boxes. If the charade does not work, the knowledgeable defendant simply denies that he or she has any goods described in the order, thanks the marshal and requests that the marshal leave.

I turn now to the civil remedies provided in the Lanham Act which were addressed in the paper by the General Merchandise Chains and characterized as being very similar to those provided in Senate bill 2428. They are not. While they look similar on the surface, the monetary remedies specified in the Lanham Act are totally discretionary with the court. Since one cannot predict what the court will do, the trademark owner must often settle for a compromise or nominal settlement that leaves profit in the counterfeiter's pocket. The counterfeiter's gamble has paid off.

Second, the Lanham Act does not provide for taking the goods bearing the counterfeit marks from the counterfeiter. He or she risks only having to remove the counterfeit trademarks and labels. The goods remain with the counterfeiter with the distinct possibility that new counterfeit marks will be affixed to them.

More importantly, the present remedies are civil. Knowing and intentional counterfeiter's tend to think in criminal terms, and the often heard refrain is: "Do not worry about it, it is only a civil matter." With enactment of the criminal sanctions of Senate bill 2428, we may actually observe some deterrent effect as the counterfeiters realize that the risk portion of their profit equation has been vastly increased.

The strengthened civil remedies will also allow the private sector to do its share to contribute to the enforcement of anticounterfeiting activities.

As I said in my formal testimony, there is nothing like the clang of the cell door to help convince the counterfeiter that he or she should move on to other, perhaps even legitimate pursuits.

Thank you, Mr. Chairman.

[Prepared statement of William C. Steffin follows:]

TESTIMONY OF WILLIAM C. STEFFIN,
ATTORNEY

LYON & LYON
Los Angeles, California

Before the Committee on the Judiciary, United States Senate, September 15, 1982.

I am Bill Steffin, an attorney from Los Angeles, California and a member of the firm of LYON & LYON. We represent three members of the International Anti-Counterfeiting Coalition in trademark counterfeiting matters. Over the past several years in jurisdictions ranging from California to New York to Florida to Texas, I have been responsible for bringing some fifty actions and participating in at least twice that many more investigations directed to protecting the rights of trademark owners from those who would steal their reputation and counterfeit their trademarks. My testimony is that of a front line soldier in the war against traffickers in counterfeit trademarks and a member of the community of attorneys around the country similarly engaged. In my testimony I will, from first hand experience and from related experiences of my colleagues, emphasize the practical problems encountered in the field in protecting trademark owners from counterfeiters under the present applicable laws.

There are presently three practical avenues the attorney in the field can attempt to utilize in protecting the public and his or her client from counterfeiters. First, there are some Federal criminal statutes which, in some circumstances, may be applicable. Second, one can attempt to interest state authorities in enforcing applicable state criminal statutes. Third, a civil action in the Federal Courts under the Trademark Act of 1946, popularily referred to as the Lanham Act (35 U.S.C. §1051 et seq.), or similar actions under corresponding state laws can be brought.

A. THE CIVIL ACTION UNDER THE TRADEMARK ACT OF 1946.

By far the most used legal procedure, for reasons I will explain later, is the civil action under the Lanham Act for trademark infringement, false designation of origin or false description and unfair competition. In such an action, the only effective first strike against the volume seller or distributor

of products bearing counterfeit marks is the judicially mandated seizure of the goods and related documents than in the possession of the counterfeiter. This step, of course, requires that the court, without notifying the defendant, grant the trademark owner an Order directing seizure of the goods and documents. Such an Order is not specifically authorized by the Lanham Act but is issued under the Court's general equity powers.

The result of a court's failure to grant the trademark owner's request was succintly summarized on by the Second Circuit Court of Appeals in In Re Matter of Vuitton Et Fils, S.A. 606 F.2nd 1 (1979). The Court, first noted that Vuitton's experience, if notice was given to one member of the community of counterfeiters, the goods would be immediately transferred from his inventory to another counterfeiter whose identity would be unknown to Vuitton. The Court then gave the following synopsis of the typical litany given by the counterfeits:

> "The now too familiar refrain from a caught counterfeiter is 'I bought only a few pieces from a man I never saw before and whom I have never seen again. My business was in cash. I do not know how to locate the man from whom I bought and I cannot remember the identity of the persons to whom I sold'," (606 F.2d at 2)

After the decision in Vuitton directing the District Court case to issue a Temporary Restraining Order without notice, some Federal Courts around the country have been willing to grant ex parte seizure orders to trademark owners in counterfeiting cases. However, as might be expected with a judicially created procedure, the willingness of individual courts to grant the orders and the scope of the orders vary from one end of the spectrum to the other. While some few courts are willing to grant seizure orders with provisions allowing the United States Marshal or a representative of the plaintiff to seize goods bearing counterfeit trademarks and the documents which show their source and to whom they were sold, many other courts will not grant such orders at all or will grant orders only of ineffective, limited scope. It is my opinion, based on my own experience and the experiences of my colleagues, that the reluctance of courts to grant effective ex parte seizure orders

arises from the lack of explicit statutory authority authorizing them.

Some examples will demonstrate the problems encountered when a request for ex parte relief is made. In the Central District of California at least one United States District Judge will not even grant a Temporary Restraining Order, much less a seizure order, without notice to the defendant. In the United States District Court for the Southern District of Florida the trademark owner's odds are two out of five of drawing a judge who will not grant an ex parte seizure order. Other courts are simply reluctant, at least on their initial experience with the counterfeiting problem to grant ex parte seizure orders.

Typical of this reluctance is my own experience in the Central District of California. In that District, the policy is that all subsequent actions relating to the same trademark are assigned to the judge who was randomly assigned with the filing of the first case. In one series of cases for a coalition member, the judge we drew issued only a Temporary Restraining Order and not a seizure order in the first filed case. In the second and third cases he issued the Temporary Restraining Order accompanied by an Order that documents be produced at the time the Temporary Restraining Order was served. It was not until he was advised that the defendants in each of the three cases violated the Temporary Restraining Orders, in one case within thirty minutes of it was served, that he began to issue ex parte seizure orders directing the United States Marshal to seize goods bearing counterfeit marks and documents related to them.

I personally experienced the variety of relief that may be granted under the present system in a single case where the defendant moved the point of delivery of some $60,000 worth of goods bearing counterfeit marks from Miami to Boston to New York. The Miami judge issued the requested seizure order, the Boston judge refused to issue it. Fortunately the defendant's last choice for delivery was New York where yet a third Federal judge issued the requested seizure order and the goods were seized.

The difficulties of the field soldier do not end even when the court issues the weapon of the ex parte seizure order. That civil seizure order, general must be enforced by United States Marshals. For a variety of reasons beyond their control the effectiveness of the enforcement of seizure orders by the U.S. Marshal's office varies dramatically. In some jurisdictions,

depending on workload, it is necessary to make an appointment for the Marshal's services a week or more in advance. Such long range planning does not fit into the plans of counterfeiters who make deals quickly and for cash. It is often impossible for investigators to stall the counterfeiters long enough for a Marshal to be available.

On other occasions the Marshals may not be able to keep their prior appointments because of higher priority court business. In one action I filed, the court issued the seizure order and the appointment was made with the Marshal. The defendant was on the road with $20,000 worth of shirts bearing counterfeits of my client's trademarks when the Marshal called to inform us that, because of an overload of criminal arraignments, he was required to stay at the Federal Court House to escort prisoners. Fortunately, the defendant voluntarily turned over the shirts to our investigator. She could as well have turned her truck around and driven away with the merchandise.

Yet another enforcement problem arises from the fact that actions under the Lanham Act are civil in nature. In my experience, the U.S. Marshal's office gives priority to criminal matters. In other cases the office is divided into a civil side and a criminal side. The U.S. Marshals on the civil side of a local United States Marshal's office are not always confident of the extent of their authority to enforce a civil seizure order. In one case recently in Miami investigators had located a major seller of watches bearing counterfeit trademarks. The Court had issued the seizure order and an appointment had been made to pick up some 100 bogus watches with a retail value of more than $30,000. At the time of the delivery it developed that the defendant's had in their possession two duffle bags full of the watches. The seizure order was served on the defendants who boldly picked up the duffle bags full of watches, walked to their truck and drove away with them. The U.S. Marshal, being unsure of his authority in this type of civil seizure, did not force a physical confrontation. While the District Judge has now issued contempt orders and at this time indictments are being presented to the Grand Jury, in my experience the watch manufacturer will never see the watches which the defendants had in their possession at the time the order was served. If the Marshal had been armed with an order issued under the provisions of Senate Bill 2428, a criminal statute, I think it is safe to venture that the watches would have been seized and the manufacturer and the public would not now have to contend with that large quantity of watches being available in the marketplace.

Another great disadvantage that the attorney in the field labors under in bringing a counterfeit trademark action under the Lanham Act is the nature of the remedies provided by that Act. Because the monetary recoveries provided in 32A of the Lanham Act (35 U.S.C. §1117) are discressionary with the court, are are not uniformly applied, the attorney who brings the action cannot advise his or her client that the ultimate recovery will include the defendant's profits, treble damages, the cost of investigating the counterfeiting activity and the attorneys' fees involved. The trademark owner is then faced with the economic decision of pursuing the lawsuit to an uncertain monetary result or substantially compromising its rights with the defendants. It is not uncommon for the trademark owner to opt to settle for a stipulated injunction and nominal damages. When this happens the defendant's gamble has paid off hansomly.

Under the provisions of Senate Bill 2428 the monetary recoveries are mandatory and, based upon the particular defendant's activities, a sizeable monetary judgment would be much more likely to be awarded. Even if the particular defendant could not respond in money damages at the time the judgment was entered, in most states judgments may be enforced over a number of years. Moreover, it is my experience that where substantial judgments have been entered, usually after the default of the defendant or as a result of the defendant violating the terms of a settlement agreement under which the trademark owner agrees to refrain from collecting a substantial monetary judgment if the defendant stays out of the counterfeiting business, the very fact of the large monetary judgment will allow the trademark owner to negotiate a sizeable cash settlement which at least, in part, compensates it for the injury it suffered as a result of the counterfeiters activities.

B. PRESENT FEDERAL CRIMINAL SANCTIONS ARE INADEQUATE.

As the coalition has pointed out in its White Paper several Federal criminal statutes arguably apply to interstate counterfeiting activities. Of widest application are the wire fraud and mail fraud statutes 18 U.S.C. §§1341, 1343. While the laws exist, their usefulness to the trademark owners is very limited. The major difficulty in applying such laws is that they are general statutes primarily directed to criminal activities other than trademark counterfeiting. It is therefore difficult to convince the government law enforcement and prosecution

agencies to apply them to the specific problem of trademark counterfeiting. As a result federal criminal statutes are rarely used in this area and when they are applied, it is in conjunction with a larger prosecution for more traditional crimes. To my knowledge there has never been a successful prosecution of a trademark counterfeiter under applicable federal criminal statutes based solely on the trademark counterfeiting activities.

The proposed legislation, being a federal statute directed to the interstate problem of trademark counterfeiting will not only provide federal law enforcement agencies with the authority and guidelines to attack this multi-billion dollar industry but also will provide a mechanism for addressing another problem - that of limited federal government resources. A significant feature of Senate Bill 2428 is that it provides a mechanism for the private litigant to assist the law enforcement agencies in at least the preliminary stages of enforcing the statute. This allows the private sector to contribute to the general benefit of the public in protecting them from those who would defraud them by trading in shoddy merchandise bearing counterfeit trademarks.

C. STATE CRIMINAL LAWS ARE ALSO INEFFECTIVE.

While a large number of states have laws making various counterfeiting activities criminal, most of those statutes are only misdemeanor statutes and, in any event are not widely or uniformally enforced by the state law enforcement agencies. (Orville C. Harrison, Penal Actions for Trademark Infringement, 57 Trademark Reporter 285 (1969). Some real world examples will suffice to demonstrate this point.

In the state of New York trafficing in counterfeit trademarks is a misdemeanor under New York statute General Business Law, sections 279-j-279f. On some occasions the responsible law enforcement agency will issue arrest and search warrants under the statute and execute them upon counterfeiters. The same request made by even the same trademark owner several weeks later may be denied by the same law enforcement agency. In any event the prosecutorial agencies generally do not prosecute the case even after the arrest has been made.

Trademark owners have experienced similar inconsistent and frustrating actions in Alabama, Missouri and California. For example, in Missouri, in one of the rural counties a trademark owner was able to obtain the initial arrest and search warrants.

However, after they had been served the local prosecutor declined the pursue the case. On the other hand in St. Louis, Missouri the local prosecutor took an active interest in the case and, acting upon information supplied by the trademark owner, seized goods at nine different retail locations. In New Jersey, where trademark counterfeiting can be a felony, a manufacturing operation was closed down by the police and the evidence submitted to the Grand Jury. A year later no indictments have been handed down.

The business of trademark counterfeiting is usually conducted in several states. The typical investigation will involve a retail seller in one state, one or more distributors in other states and a manufacturer in yet another state. A variety of state laws whose enforcement is unpredictable is simply inadequate to meet the problem. As with federal criminal prosecutions, I am aware of no successful criminal prosecutions under state laws which provided any result which would significantly impact on the counterfeiter's profits or provide a deterrent affect on him or others.

D. CONCLUSION.

Based upon my own experience and the experience of other attorneys, the present methods of enforcing the rights of trademark owners and protecting the public from shoddy merchandise bearing counterfeit trademarks are simply inadequate to deter the counterfeiters who consider the business a high-profit, low-risk endeavor. Since most actions are civil actions brought under the Lanham Act the word that reaches the counterfeiters is "Don't worry about it, it's only a civil matter". Many of them know that if they simply refuse to turn over merchandise and documents to the United States Marshal no seizure will occur.

Many counterfeiters have themselves been in trouble with the law or are friends with those who have. They only respect criminal sanctions. An example from my own experience will demonstrate this. In a series of actions against large distributors of watches bearing counterfeit trademarks, the largest distributor was sued first. A Temporary Restraining Order was obtained and subsequently the defendant agreed to a Stipulated Preliminary Injunction. He simply turned his business over to a friend who continued to sell the bogus merchandise. When we brought suit under the Lanham Act against the friend and

some of his subdistributors I asked them, in their depositions, if they had heard of the first law suit. Most replied that they had. I then asked them what the first defendant had told them. The response was "Don't worry about it, it's only a civil matter." To eventually put the two main distributors out of business it was necessary to twice catch each of them in contempt of the Court's orders. Even then the court did not refer the defendant's contempts for criminal contempt prosecution.

I will conclude my remarks with an observation made by one of the investigators I have worked with who has more experience than I in dealing with the criminal personalities generally involved in the counterfeiting business. He told me that there is nothing like the clang of the cell door to let the counterfeiter know that his or her activities are a serious matter and to give him or her the resolve to move on to other, perhaps even legitimate, pursuits.

Mr. Chairman and members of the committee, I thank you for your indulgence in allowing me to present these remarks.

Senator MATHIAS. On that grim note, we will go to the last member.

Mr. RAKOFF. Thank you, Mr. Chairman.

My name is Jed Rakoff. I am a partner of Mudge, Rose, Guthrie & Alexander, and we are counsel to the International Anti-Counterfeiting Coalition.

I appreciate being here today and I particularly appreciate your offer to dispense with the reading of the formal statement because I submitted, in lieu of a formal statement, a 152-page analysis of the bill.

Senator MATHIAS. Maybe I had you in mind.

Mr. RAKOFF. But I want, somewhat extemporaneously, to put on a slightly different hat which is my hat as a former Federal prosecutor, and I am prompted to do that by the remarks of Mr. Baxter on the criminal aspects of the bill. I was a Federal prosecutor in the southern district of New York for 8 years, and the last 3 of those years, the late seventies, I was chief of business frauds prosecutions for the southern district of New York. That was the largest unit in that office. It consisted of 14 assistant U.S. attorneys and many additional agents who were concerned entirely with prosecuting the kinds of cases that Mr. Baxter sort of indicated he thought U.S. attorney offices would not be interested in prosecuting, commercial frauds. I know we went about our business quietly, but I did not realize it was quite that quiet. There are similar units in the Chicago U.S. attorney's office, there are similar units in the Los Angeles office, and the reason for the existence of those units is because I think most Federal prosecutors have come to recognize that there is a very strong public interest in prosecuting commer-

cial frauds that are of the magnitude of the kinds of frauds that we are talking about here today. It is not just a question of the trademark owner losing his investment, although that is certainly an important interest itself. It is a question of millions of consumers getting ripped off, having their health threatened, and all the other very serious social concerns that have been referred to by the previous speakers.

Among the various kinds of commercial frauds, the number of commercial counterfeiting cases that could be brought, while I was a Federal prosecutor, however, were extremely few. Not because we did not want to bring them, and not because we were not aware that such frauds were a tremendous social problem, but because there was no Federal statute directly in point. That is precisely why it seems to me that this legislation is very sorely needed at the criminal level as well as at the civil level.

Every once in awhile you do get a commercial counterfeiting case that falls within the coverage of an existing Federal statute. There was one in my old office just this past spring, the case called *United States* v. *Leo Sterling*. And in that case, even though there was not any health or safety aspect, they prosecuted anyway. It was a situation where there was a New York based counterfeiter of designer jeans whose operation had grown so extensive that he had outlets in over 50 different places throughout the United States; he had a network of eight people in his home office with such specialized functions as bribing bankers, bribing credit-reference places, all to make the scheme succeed. When he was finally brought to justice, the judge, Judge Sand, imposed a 7-year prison term, because even there, even though there was no health or safety aspect, the immensity of the fraud and the amount of damage to the consumers was just phenomenal and had to be deterred.

So my point is that while it is certainly true that the criminal remedies are not alone sufficient under this bill unless there are also the civil remedies, and I think to that extent Mr. Baxter's point was well taken, yet, it is true that the criminal remedies will give Federal prosecutors the opportunity in important cases to achieve a very significant deterrent effect on this problem. And without that kind of deterrent effect, I think you are just going to see the problem grow and grow.

Senator MATHIAS. Well, let me start out by asking the unpermissible question, but it is generated by your comment about the consumers being ripped off.

Do the consumers always get ripped off or is the spread of technology such today that the counterfeiters can produce as good a product as the originators?

Mr. RAKOFF. Well, I would not want to say that they 100 percent always get ripped off, because I think this problem is so widespread that none of us can claim to have that kind of encyclopedic knowledge.

Senator MATHIAS. The counterfeiters could still make a high quality product and count on, say, the difference in advertising costs to make their profit. The product itself could be just as good. Does that ever happen?

Mr. RAKOFF. That has not been my experience because one of the most notable absences is the absence of quality controls. In our so-

ciety in just about every area of consumer goods, we have imposed, or the companies themselves have undertaken as part of building their reputation to impose upon themselves, reasonable quality controls. So that is how they get to be successful. And in my experience, at least, that is one of the ways in which a counterfeiter makes money. He not only sells a cheaper product, but even where the product is arguably similar in some rough way to the consumer product, he does not undertake any of the quality controls that are necessary to make sure that it is long lasting, that it is safe, and that it is not dangerous.

Senator MATHIAS. Mr. Brown, in your statements, you referred to the worldwide nature of the problem, to the fact that a single counterfeited item may move through several different countries before it finally is retailed to the consumer.

Mr. BROWN. Yes, sir.

Senator MATHIAS. And you said that you had been able to put out of business one particular episode of counterfeiting. You had been able to resolve it, by vigorous methods, the vigorous action of the company.

How do you get control over these worldwide conspiracies to counterfeiting? Do you get cooperation in foreign countries?

Mr. BROWN. It varies from country to country.

Our experience in Taiwan is the greatest incidence of counterfeiting. They are presently, as I am sure the Senator knows, involved in new trademark legislation within Taiwan which was scheduled for passage in July and did not take place. And our recent understanding is it will probably be next spring at the earliest, with 108 trademark classes it becomes a rather—it is a barrel of snakes at best to try to know where the cooperation is. Our experience has been the full spectrum of cooperation. Our product is different than many others. It is very portable, it is a very sophisticated assembly operation and, in many cases, the product is not in any one place at any one time except for the last moment when it is finally put together and then sent to market. Most of it leaves Taiwan. There is very little in the local market there.

In answer to a previous question which you did not ask me, but I will comment on, the consumer is always ripped off as far as our product is concerned. It comes from poor to terrible in its products, depending on our efforts, I think, and hopefully coupled with the passage of this kind of legislation, blocking or at least deterring the world's largest market as a target for this type of product, our recent experience is that the problem is still serious but that the risk is greater because of our investigating efforts and, therefore, that item has been passed down the line in level of quality of manufacture so that the product is actually getting a little bit worse.

The factory which we raided in Taiwan is back in business. We have someone presently in their employ. They do not know that. But if our product becomes something of interest to them again, and we doubt very much it will, we will be there again. But the self-help aspects of it, and I think our daily investigative services that we contract for both in Taiwan and in Hong Kong, plus very cooperative work with our international representatives in those two countries, are the best defense against what is going on.

I did not mean to give too wordy an answer to your question but just to comment.

Senator MATHIAS. Mr. Merrall, there are some differences with the U.S. Trademark Association over the requirement in the bill that the individual must traffic in a counterfeit, knowing it to be a counterfeit.

I think you disagree with that; do you not?

Mr. MERRALL. Well, that is a problem of proving that the individual knows that it is a counterfeit. It has always been a concern of ours.

In our investigations, normally this has not been a problem because of the price differential that is associated with the product that is being purchased. There is such a sizable difference that there is good question and good doubt as to whether or not the individual knows whether it is a counterfeit or it is not a counterfeit.

Senator MATHIAS. So that you imply intent on the basis of the circumstances of the transaction, in effect. Is that what you are telling me?

Mr. MERRALL. Perhaps Jed, do you want to comment on that?

Mr. RAKOFF. Yes, Senator, the language, the intent language in your bill was taken very closely from the amendments to the record piracy bill that Congress passed just this past May; and one of the questions that was before this committee and before the entire Congress at that time was what was the appropriate standard of intent for counterfeiting record labels, which is just one form obviously of commercial counterfeiting. It was the opinion of the Department of Justice, it was the opinion of this committee, and it was the opinion ultimately of Congress that the appropriate standard of intent was knowledge that an article was in fact a counterfeit and knowledge that one was trafficking in that counterfeit good. That same standard has been incorporated in your bill, and it seems to us that anyone who knowingly trafficks in what he knows to be a counterfeit trademark has shown himself to be not a legitimate businessman or in any other way entitled to anything other than sanctions.

The USTA, I know, would prefer a slightly tighter definition. I do not think there are substantial differences between their position and the one in your bill, but theirs would be closer to what the Record Piracy Act used to have during the first 20 years it existed from 1962 to 1982 as a misdemeanor statute. That was found by the Justice Department to not be a helpful standard; it presented more problems in prosecuting than it solved; and it was for that reason that Congress, in May of this very year, changed it to the standard that now exists for the record piracy bill and that is the one that we would urge, and your draft urges, as the appropriate standard for this bill as well.

Senator MATHIAS. On another technical question that has arisen since the introduction of the bill is the question of whether or not it would be broad enough to include trademarks deriving from the Federal statute as well as principal register marks.

The Federal statute trademarks, for example, would be the symbols of the Olympic Games or of the Boy Scouts or of the Red Cross.

Do you think the bill as drafted is broad enough to cover both categories, or should it?

Mr. RAKOFF. Well, as drafted, the bill was limited to marks that are on the principal register, and the reason for that is because those marks are the ones about which there could be the least dispute and therefore it was felt that you are not going to get into a diversion at trial as to whether it is a legitimate mark and whether there is someone else who maybe has a prior claim, and also you will not be sweeping into the coverage of the statute anyone who might legitimately have misused the mark because he thought he had a prior claim.

There are certainly good arguments for broadening the statute beyond where it stands but it was, as I understand it, your committee's thinking was to keep it narrow for that purpose.

Senator MATHIAS. Is there any feeling on the panel at large as to whether or not it should be broadened or any objection to broadening it?

Mr. MERRALL. We have no objection to broadening it.

Mr. STEFFIN. Mr. Senator, the particular Federal statutes that you referred to, such as the statute designating the Olympic Committee trademarks, I think in effect making them, I guess you would characterize them as super trademarks, because you do not register them; they are in the statute, should arguably be included within the scope of the bill because all of the protections that are built into the language of the bill would apply to those types of statutes. But each statute should be looked at carefully to be sure it falls into at least the type of mark that a mark registered on the principal register for particular goods as defined in the bill.

Senator MATHIAS. Let me ask you one last question, to the panel at large.

Is there a boomerang in this bill? Is there something here that could adversely affect American business, and I give you as an example the bill that the Congress enacted several years ago on foreign corrupt practices which, instead of proving to be a leadership act on the part of the United States that would encourage other nations to follow along, simply disadvantaged American business, put us at a competitive disadvantage.

Do you see any comparable problem that could flow from this bill?

Mr. RAKOFF. No.

Senator MATHIAS. Very well.

If all the panel agrees——

Mr. BROWN. I agree.

Mr. MERRALL. I agree.

Mr. STEFFIN. I agree.

Mr. RAKOFF. I would say one other thing, Senator. We are the only major commercial country that does not have a Federal, national criminal law for trademark counterfeiting. It does not mean that they are always enforced: there are situations like the Italian one that was described earlier that are unfortunate. But we are certainly, in one sense, behind the other countries in not having such legislation. I do think this legislation will put us ahead of other countries in that it is uniquely comprehensive and that it addresses the problem on both the criminal and the civil side.

Senator MATHIAS. I am glad I asked that question because that is important.

Mr. STEFFIN. Senator, if I may just respond to your question to Mr. Baxter about the organized crime connections.

While I am not prepared to offer evidence that organized crime is involved, I know in the active investigations we have going, it is not at all uncommon to find out that the FBI or some local law enforcement organization is investigating the same individuals that are involved in the trademark counterfeiting, for other crimes.

Now, I do not want to make an accusation——

Senator MATHIAS. But you feel that there is at least a remarkable coincidence?

Thank you very much.

Our next witness is Mr. Thomas Corum, president of the United States Trademark Association.

STATEMENT OF THOMAS J. CORUM, ESQ., PRESIDENT, THE UNITED STATES TRADEMARK ASSOCIATION; ACCOMPANIED BY GRIFFITH B. PRICE, JR., ESQ., CHAIRMAN, FEDERAL LEGISLATION COMMITTEE, THE UNITED STATES TRADEMARK ASSOCIATION

Mr. CORUM. Mr. Chairman, the United States Trademark Association appreciates the opportunity to express its views on Senate bill 2428, the Trademark Counterfeiting Act of 1982.

The association has filed a written statement to the committee and it is my understanding it will be made a part of the record.

Senator MATHIAS. The statement will be made part of the record as if read in full.

Mr. CORUM. Thank you very much.

As you indicated, my name is Thomas J. Corum and I am president of the United States Trademark Association.

Accompanying me today is Griffith B. Price, Jr. Mr. Price is chairman of the USTA Federal Legislation Committee which has undertaken a review and analysis of the subject bill on the USTA's behalf. He is also engaged in private practice as a partner in the New York law firm of Milgrim, Thomajan, Jacobs & Lee Professional Corp.

Mr. Price will provide this committee with details of his USTA committee considerations and report on this vital legislation.

The USTA operates by committees; that is the reason Mr. Price will be giving the bulk of the testimony and, perhaps, it would be advisable to provide you with some brief background on the United States Trademark Association.

It was founded in 1878 and is a 104-year-old nonprofit membership corporation whose purposes include protecting the interests of trademark owners and the consuming public who rely heavily on trademarks in their purchasing decisions.

You have heard quite a bit of testimony to that effect prior to our testimony.

Today, USTA has a membership of approximately 1,500 trademark owners and those who serve them. All of the association's officers, its board of directors, its committee members and chairmen serve on a voluntary basis. USTA is the oldest and largest organi-

zation in the world today, exclusively dedicated to the trademark concept, trademarks only.

Accordingly, USTA recognizes that urgent action is needed to halt the growing problem of commercial counterfeiting.

At this time, I would like Mr. Price to continue with USTA's presentation as to the association's interests in this legislation and more particularly the position it has adopted with respect to Senate bill 2428, a bill to strengthen the penalties for trademark counterfeiting.

Mr. Price?

Mr. PRICE. Thank you, Mr. Corum.

Mr. Chairman, the USTA Federal Legislation Committee is charged with the responsibility of keeping USTA and its members informed and advised of developments in Federal legislation which affect the interests of trademark owners and users. As such, the committee reviews literally dozens of trademark, unfair competition, and consumer protection bills during each session of Congress, analyzing and reporting on them to the USTA board and the association's members.

Of all these bills, we regard the Trademark Counterfeiting Act of 1982 as one of the most significant which has been introduced in this Congress and indeed for many years in the past. It represents a dramatic and positive step in the direction of dealing with one of the most pressing and important commercial problems that confronts us today: the rapid growth, as we have heard this morning, of a virtual industry of counterfeiting of brand name goods.

Such counterfeiting represents a threat to manufacturers, distributors, the general public, individuals in the general public and our economy at large. Wholly aside from deception of the public and injury to the honest businessman, such counterfeiting undermines the entire basis of our trademark system which provides assurances of source, quality and dependability to the user of brand name goods.

For all these reasons, USTA stands solidly behind the concept of criminal penalties and strengthened civil remedies for the counterfeiting of brand name goods and services. We believe the recent explosion of counterfeiting cases demonstrates beyond any doubt that existing civil remedies, included principally in the Lanham Act, are inadequate deterrents. Criminal penalties should be provided, as has already been done in the case of counterfeit record and tape labels. Also, because of the difficulty of proving the actual extent of injury to the trademark owner, treble damages and award of profits and attorneys' fees—remedies comparable to those available for violation of the antitrust laws—seem called for. In other respects as well, for example, in providing for the seizure of counterfeit goods, the bill strengthens, clarifies and improves on current law.

In short, USTA subscribes to the overall intent and purpose of the bill and strongly urges that legislation for these purposes be passed.

USTA and the Federal Legislation Committee have considered the specific language of the Trademark Counterfeiting Act of 1982 in some detail with a view toward enactment of a statute as well equipped as possible to achieve those ends. With this in mind, USTA's prepared statement suggests several amendments for the

committee's consideration which we believe may help to refine the intended scope and application of the bill.

Generally speaking, the substantive amendments USTA suggests are as follows:

First, we believe the definition of "a counterfeit" should make clear that the imitation trademark must be used in such a way that the goods or services of the defendant are likely to be taken for the goods and services of the registrant of that trademark. Otherwise, some conduct which would not ordinarily be thought of as counterfeiting might literally be encompassed by the bill.

For example, suppose a trademark registered for men's clothing and used by the registrant for low-priced sports jackets is knowingly used by someone else for expensive, full-length raincoats. The bill, as written, appears to leave the defendant open to criminal penalties as well as heavy civil sanctions; but, in all probability, many people would not regard his offense, if there has been one, as counterfeiting. Some lawyers practicing in the trademark field might say he is guilty of trademark infringement—but there are even cases which hold that, on similar facts, not even a trademark infringement, much less counterfeiting, has occurred.

In the case of the example just given and a number of other situations, USTA believes that the scope and purpose of the bill would be clarified by limiting the violation to cases in which, as a result of the overall manner in which the counterfeit mark is used, the defendant's goods are likely to be taken for those of the registrant of that trademark.

Similarly, it may be possible to refine and focus the definition of "wrongful intent." As written, the bill requires only proof that the defendant used the counterfeit mark knowing it to be counterfeit. Again, this may literally cover some types of conduct which most people would not regard as counterfeiting and which might not appear to call for punitive sanctions of the kind the bill provides.

For example, suppose two fast food chains—one of which does business only in one State but the other of which operates on a much larger scale in other areas—both adopt the identical trademark and the latter applies for and obtains Federal registration of that trademark. If the smaller company knows of the registration, it might literally be subject to criminal penalties under the bill even though it might have had no deceptive or wrongful intent. This result could follow even if it had been the first to use the mark and even if it otherwise would not be under present trademark law subject to any sanctions. Indeed, it might be entitled to continue its use of that mark within its own established area.

USTA suggests that this, and other situations which probably should not be covered by the bill, may be clarified by closer definition of the kind of intent involved. Knowledge that the mark one uses has been registered for similar products or services would not appear to be enough. Even a reference to deceptive intent may not do the job; that may include the intent to confuse or mislead with respect to the affiliation or sponsorship of the goods which may be the basis for a finding of trademark infringement but it does not necessarily imply passing off. Rather, USTA believes that the required intent should be defined as the specific intent to pass off the

goods to which the false mark is applied as those of the trademark owner.

Both these suggestions are basically intended to assist in the refinement of the definition of the violation at which the bill is aimed. In a sense, counterfeiting is a little like obscenity; to paraphrase Justice Stewart's comment about the latter, it is difficult to define it, but we all know it when we see it. In the same way, there is little disagreement, and I have heard none this morning, that commercial counterfeiting is an evil of a particular kind which is different from garden variety type trademark infringement, and which must be dealt with by strong medicine. The difficulty arises in defining it and, in order for the bill to be fully effective, USTA believes that the definition should not be overbroad.

In essence, USTA suggests that the core violation involves intentional passing off through the use of a copy of someone else's registered mark. Where that intent is absent, or where such passing off is not likely to be achieved, criminal penalties and punitive civil sanctions may not be appropriate and the violation, if there is one, may be dealt with under existing trademark law.

In sum, USTA strongly endorses legislation to deal with the recognized evil of commercial counterfeiting. We believe that the Trademark Counterfeiting Act of 1982 represents an important effort to deal with that problem and we hope that, through the suggestions we have offered, a fully effective and enforceable bill may be enacted.

Thank you.

Senator MATHIAS. Thank you, Mr. Price.

Let me ask you, do your suggested amendments exclude any of the conduct that would otherwise be covered by the current language in the bill?

Mr. PRICE. I believe they do.

In addition to the two examples which I mentioned, which were adapted from what in fact are reported trademark decisions involving different goods and the use by a knowing but good faith competitor, there are a number of other possible exclusions.

They might involve, for example, the use by the defendant of the same word or trademark, in a different form, in a different display, or with distinctly different trade dress, that is, the packaging or the labeling of the goods. They might involve, as sometimes occurs, and did occur in one of the situations I mentioned, the use of the registered trademark by the defendant in conjunction with its corporate name or house mark, in a prominent display, obviously reducing the likelihood that anyone would mistake that product for the product of the plaintiff.

There are also situations, for example, which might arise involving the use by the defendant of a mark which is the subject of a Federal registration, but which in fact has been abandoned by the plaintiff—the owner of the registration—or perhaps the use of the registered mark, which is still subject to a subsisting registration, but which has become the generic name, in common parlance, of the goods to which it has applied.

There may be other situations. I think these are the principal ones which come to mind.

Senator MATHIAS. Is there a possibility that someone could use a trademark that is not his own, without being a counterfeiter?

Mr. PRICE. Yes, and I think that situation is demonstrated by the second of the examples that I gave, in which in fact, the registration for the trademark involved was obtained by the second user. The prior user had begun his use of that mark before its first use by the party who eventually obtained the registration.

Mainly, I think that in that case, and in similar cases, the second user had no intent to pass off his goods as those of his competitor. Indeed, his position in that litigation was that it was he and not the plaintiff who was entitled to the use of the mark.

I think good faith was present there, despite the common use by both parties of the identical registered mark.

Senator MATHIAS. That might be within the period in which they are litigating who is the actual holder, but what about after some determination?

Mr. PRICE. If he continued to use it outside the area of any permitted concurrent use thereafter, I would say his good faith would be cast in doubt.

Senator MATHIAS. I would think so.

Does the United States Trademark Association agree with the International Anti-Counterfeiting Coalition's position that the right of action ought to be confined to the trademark owners, and not to consumers, or to a class action kind of procedure?

Mr. PRICE. I believe the most effective enforcement will be obtained if the tool is placed—if the private enforcement tool is placed—in the hands of the trademark owner, in cases of this kind.

I do not believe that this sort of legislation appropriately would address a consumer wrong, or class action.

Senator MATHIAS. I just have one further question.

How would the association feel about an expansion to include the statutory trademarks that I mentioned to the last panel, such things as the Olympic games symbol, or the Red Cross symbol?

Mr. PRICE. That is not a question which the association has expressly addressed.

I might offer my personal view that it would be entirely appropriate to include those marks.

Mr. CORUM. I share the same feeling. As the issue did not come up through a committee, that is a personal view. But based on experience, I think Mr. Price and I can express that we believe it is appropriate, definitely.

Senator MATHIAS. Thank you both.

[Prepared statement of Thomas J. Corum follows:]

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STATEMENT OF

THE UNITED STATES TRADEMARK ASSOCIATION

on

S.2428
(TRADEMARK COUNTERFEITING ACT OF 1982)

Mr. Chairman and members of the Committee, The United States Trademark Association (USTA) appreciates the opportunity to express its views on S.2428, the "Trademark Counterfeiting Act of 1982." My name is Thomas J. Corum and I am President of USTA. With me today is Griffith B. Price, Jr., Chairman of USTA's Federal Legislation Committee, whose Committee has undertaken a review and analysis of that Bill on USTA's behalf.

Purposes and Membership of USTA

USTA is a 104-year-old, non-profit membership corporation whose purposes are to protect the interests of the public in the proper use of trademarks, to promote the interests of trademark owners in their trademarks, and to serve as an educational and informational resource on the registration, protection, and use of trademarks. The membership of USTA consists primarily of owners of trademarks and those who represent owners of trademarks. USTA is the oldest and largest organization in the world exclusively dedicated to furtherance of these interests, and the majority of all United States trademark registrations in effect today are owned or were prosecuted by members of our Association.

USTA's Interest in the Pending Bill

Because of their interest in the preservation and development of the trademark system from both a private and a public point of view, USTA and its members have been seriously concerned with the rapid growth in recent years of a virtual economic demi-monde of counterfeiting. In dozens if not hundreds of reported cases, brand name products ranging from blue jeans to high technology repair parts for military and commercial aircraft have been "knocked off" by counterfeiters. The counterfeiters not only copy the design, materials, and packaging of the genuine articles, but pass their copies off as the real thing by using false copies of the trademarks under which the originals are sold. These counterfeiters prey not only on honest businessmen, large and small, but also on the individual consumer and on our economy at large. They rob the trademark owner of the time, effort, and expense he has invested in developing public recognition of his trademark. They deceive the consumer for profit; and they enable the manufacturers and distributors of shoddy, second-rate goods, often imported from other countries, to deprive U.S. businessmen of honest sales.

Finally, such counterfeiting directly undermines the threefold purpose of the trademark laws: to identify the goods or services of the trademark owner with their source, to differentiate his goods and services from those of others, and to provide assurances of quality, reputability, and responsibility to the buying public.

These fundamental commercial and public policies are directly thwarted by those who copy others' trademarks and goods and pass them off as genuine. Such counterfeiting can and should be stopped.

The Need for, and Appropriateness of, Stronger Sanctions

USTA believes that the problem of counterfeiting has reached such proportions and is of sufficient seriousness that stronger penalties and remedies must be made available. Recent instances of this species of commercial fraud have made clear that not only the property interests of manufacturers and distributors of genuine goods, but also the health and safety of members of the public at large, are at stake. Civil remedies available under present law, such as ex parte temporary restraining orders, do not appear sufficient to deter or forestall the repetition of the wrong, and judge-made limitations on the availability of damages under the Lanham Act and other statutes make it unlikely that even the successful civil plaintiff will be fully compensated. Nor do present remedies provide effective protection for the general public.

USTA therefore wholeheartedly supports the enactment of anticounterfeiting legislation providing strengthened penalties and remedies. Even before introduction of the present Bill (notably, after Senator Mathias' address at the International Anticounterfeiting Coalition's meeting in January of this year), USTA's Federal Legislation Committee had considered proposals for such legislation. At the USTA Board of Directors meeting in early May, the following resolution was adopted.

> "RESOLVED, that in order to protect the interests of the consuming public and owners of registered trademarks against the distribution and sale of counterfeit goods and services, USTA favors in principle the prompt enactment by Congress of legislation strengthening remedies against commercial trafficking therein."

USTA adheres to that position in endorsing the overall concept of the pending Bill.

Position of USTA on S.2428

Since the USTA Board's adoption of the resolution set forth above, S.2428 as introduced has been considered by the Federal Legislation Committee. At its September 1, 1982 meeting, the USTA Board received the report of that Committee and adopted the following resolution based on its report.

> "RESOLVED, that to protect the consuming public and owners of registered trademarks against goods and services using counterfeits of such trademarks, The United States Trademark Association favors in principle the enactment of federal legislation imposing criminal penalties and strengthening civil remedies for the use in commerce of a spurious trademark identical to or substantially indistinguishable from a trademark registered on the Principal Register of the United States Patent and Trademark Office --
>
> (a) where such spurious trademark is used --
>
> (1) on or in connection with goods or services in a manner such that the goods and services are likely to be taken for those recited in the Certificate of Registration and on or in connection with which the registered trademark is in use, and
>
> (2) with the intent that the defendant's goods or services be mistaken for those of the registrant or of a user authorized by the registrant; and
>
> (b) under which legislation --
>
> (1) the maximum criminal fine is not less than $250,000 and the fines and prison terms are not cumulative of those under 18 U.S.C. Section 2318,
>
> (2) civil claimants may obtain temporary restraining orders only pursuant to Rule 65(b) of the Federal Rules of Civil Procedure, and
>
> (3) recovery of profits, attorney's fees or treble damages shall bar corresponding recovery under the Lanham Act or state law of, respectively, profits, attorney's fees or any damages.
>
> Specifically, The United States Trademark Association supports enactment of S.2428 (Mathias) and H.R.6175 (Rodino), 97th Cong. 2d Sess., provided such legislation is amended as in '(a)' and '(b)' above."

Endorsement of the Bill Subject to Amendments

As the resolution quoted above makes clear, USTA supports enactment of S.2428 subject to amendment of that Bill in several respects. These in no way alter USTA's strong endorsement of the fundamental concept and purpose, as we see them, of legislation of this kind. Rather, they are points on which USTA believes, and hopes, that its views as to the precise language of the Bill may be of some usefulness to the Committee in preparing the best possible statute to deal with the counterfeiting problem.

Definition of the Violation. Of these points, the first has to do with definition of the violation to which the Bill is addressed. As set forth in subparagraphs (a) (1) and (2) of the resolution, the amendments it envisions are as follows:

1. Revision of the definition of a "counterfeit" to make clear that the trademark involved must be used in connection with goods or services which are, in total context including but not limited to the trademark as used, likely to be taken for the goods or services of the registrant for which its trademark is used; and

2. Revision of the definition of "trafficking" to make clear that the intent to pass off the imitation goods or services as those

of the registrant is a required element of the offense.*

These suggestions are intended to overcome a principal substantive issue which is that, as written, the Bill would criminalize a variety of kinds of conduct which neither constitute "counterfeiting" in the commonly understood meaning of that term nor appear to warrant criminal penalties. Specifically, the Bill would encompass conduct which, although perhaps constituting trademark infringement under 15 U.S.C. § 1114 (the Lanham Act), would not appear to partake of the central evil at which the Bill is aimed, i.e., the sale of goods made in imitation of the registrant's goods, and made under the registrant's trademark, which are neither likely nor intended to be distinguished from the genuine. Such conduct could include use of the trademark in a wholly different form or trade dress (packaging and labeling) from that used by the registrant; use in conjunction with the defendant's name prominently displayed; use by one with knowledge of the registration, but asserting superior or concurrent rights in good faith; or use for goods or services literally encompassed within the description in the certificate of registration but for which the trademark is not in fact in use by the registrant.

It is not clear that any of these uses should be made criminal and, as to some, there are persuasive arguments that they should not. Likewise, the Bill's reference to use of a trademark "knowing [it] to be counterfeit," i.e., identical to or substantially indistinguishable from

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* "Registrant" as used in these two paragraphs and in the discussion which follows includes a user authorized by the registrant. In addition, USTA believes that either the Bill itself, or legislative history supporting it, should make clear that proof of intent to deceive any purchaser or consumer at any level in the chain of distribution -- not just the defendant's immediate buyer -- would satisfy the statutory test.

the registered trademark, may leave the knowing but good faith user exposed to possible criminal sanctions.

USTA believes that the Bill should pertain only to uses which are intended to, and are likely to have the effect of, leading purchasers to mistake the defendant's goods or services for those of the registrant. Revision of the Bill as suggested by USTA would make clear that neither the use of the registered trademark on unrelated or clearly distinguishable goods, nor innocent use on the same goods, would give rise to criminal sanctions or trigger the substantial civil remedies the Bill provides. In addition to clarifying the nature of the criminal intent required, the further required element of intent to pass off the imitation goods as those of the registrant provides a touchstone against which the similarities of the trademark and goods may be tested in doubtful cases.

Obviously, given the many variables of similarity of trademark, similarity of goods, similarity of trade dress, and so forth which must be considered, the line between trademark infringement and criminal counterfeiting is difficult to draw in the abstract. Even those who support the concept of strengthened remedies against counterfeiting do not all agree upon where that line should be drawn. USTA believes, however, that the revisions it suggests will provide more workable statutory definitions and standards, while at the same time leaving sufficient flexibility for the courts to apply the Bill in accordance with its purpose on the basis of the facts of each particular case.

Availability of Ex Parte Orders. The second amendment suggested by the USTA resolution (subparagraph (b)(2)) has to do with the availability of seizure and restraining orders upon ex parte application of a civil

plaintiff. While there is a growing body of judge-made precedent for the issuance of such ex parte orders in counterfeiting and infringement cases, Rule 65 of the Federal Rules of Civil Procedure closely limits the circumstances under which such orders may be issued and their scope and duration. Some concern has been expressed that, under subsection (d) of the Bill, such orders might be routinely granted, even perhaps in cases where an overzealous private plaintiff resorted to the Bill more as a competitive tool than to redress true counterfeiting injury. USTA believes that the reluctance -- well known to trial lawyers -- of trial judges to issue orders on an ex parte basis except on clear showing of need will minimize the possibility of such misuse. However, explicit reference in the Bill to the limiting criteria of Rule 65 may also be appropriate.

Scope of Penalties. Finally, the USTA resolution (subparagraphs (b)(1) and (3)) suggests that the maximum fine for violation be not less than $250,000, that fines and prison terms not be cumulative of those under 18 U.S.C. § 2318 (counterfeit phonograph labels) and that civil recoveries under the Bill not be cumulative with any recovery based upon the same facts under the Lanham Act or state law. The Bill already provides that recovery of treble damages pursuant to it shall bar recovery of any damages under the Lanham Act for the same occurrence. USTA suggests that it should be made explicit that recovery of profits or attorneys' fees under the Bill would also bar similar recovery under the Lanham Act, and that recovery of any of those elements of monetary relief under the Bill would bar similar recovery under state law.

Conclusion

USTA stands firmly behind S.2428 in its basic con-

cept and purpose, i.e., to provide strong, complete and effective civil remedies as well as the deterrent of criminal sanctions to prevent, redress, and punish the evil of commercial counterfeiting. USTA believes that the amendments it suggests -- which hopefully will be of some assistance to this Committee in its consideration of the Bill -- would help to further clarify and define that purpose in order to achieve the goal to which we all subscribe.

USTA thanks the Committee for the opportunity to present these views, and stands ready to respond to any questions the Committee may have.

Senator MATHIAS. Our last witness this morning is Mr. David Haarz, K Mart Corp., but who appears on behalf of the Association of General Merchandise Chains.

Welcome to the committee.

STATEMENT OF DAVID R. HAARZ, ESQ., ATTORNEY FOR TRADEMARKS AND BANKRUPTCY, K MART CORP., ON BEHALF OF THE ASSOCIATION OF GENERAL MERCHANDISE CHAINS, ACCOMPANIED BY ROBERT W. STEELE, ESQ., WASHINGTON LAW FIRM OF HOWREY & SIMON, WASHINGTON, D.C.

Mr. HAARZ. Good morning, Senator Mathias.

I am David Haarz. I am an attorney for the K Mart Corp., and one of my areas of practice is the trademark area.

With me today is Robert W. Steele, a member of the Washington law firm of Howrey & Simon. Mr. Steele has considerable experience in the antitrust area, and has reviewed Senate bill 2428 with regard to its anticompetitive impact.

I am testifying today on behalf of the Association of General Merchandise Chains. AGMC is a trade association representing 125 retail companies of various sizes throughout the country. Last year AGMC member companies accounted for over $34 billion in sales.

After my testimony, Mr. Steele and I would be happy to answer any questions.

The purpose in testifying here today is to urge this committee to carefully consider the harmful impact this bill would have on members of the retail industry. We oppose Senate bill 2428.

The committee has been provided with my written testimony, and I would like at this time to highlight that testimony.

Senator MATHIAS. Your full statement, as in the other cases, will be included in the record.

[The following was received for the record:]

Agmc

TESTIMONY
OF
DAVID R. HAARZ
ON BEHALF OF THE
ASSOCIATION OF GENERAL MERCHANDISE CHAINS

Description of our Trade Association and its Membership

My name is David Haarz. I am an attorney for K mart Corporation based in Troy, Michigan and I am regularly called upon to protect its trademarks and defend against infringement claims. With me is Robert W. Steele, a member of the Washington law firm of Howrey & Simon. I am testifying today on behalf of the Association of General Merchandise Chains (AGMC) and Mr. Steele will be available to answer questions after my testimony.

AGMC is a trade association representing 125 retail companies operating more than 20,000 discount, variety, dollar and family center stores. Our members range in size and include not only many of the nation's largest retail chains but also companies active in one or more regions of the country or in a few localities. AGMC member company stores are found in every state of the nation and last year accounted for over $34 billion in sales.

Purpose of Testimony

My purpose in testifying here today is to urge this Committee to consider carefully the harmful impact this bill could have on members of the retail industry. We recognize that the willful sale of counterfeit goods is a serious matter. Consumers are harmed when they buy counterfeit goods since they are not getting what they paid for and expected to get. Trademark owners are, harmed through lost sales. The retailers for whom we are testifying appreciate the gravity of harm which results when willful counterfeiting takes place. Many of AGMC's members have trademarks and private labels of their own to protect.

Though we recognize the problem, we feel that S.2428 is neither a good nor desirable answer. The bill creates a number of problems of its own. It is an inequitable bill; it is unnecessary; a number of its provisions are vague and overbroad. More importantly, it has the distinct potential for being used as a subterfuge to injure competition in the retail industry. For these reasons, we oppose the enactment of S.2428.

Anticompetitive Impact

The Sherman Act of 1890 has been described as a charter of economic liberty for the American people. Unfortunately, the provisions of the proposed Trademark Counterfeiting Act of 1982 can be used to undercut substantially the competitive protections to the consumer and to independent businessmen which are guaranteed by that statute.

Section 1 of the Sherman Act has been repeatedly interpreted to prohibit any collusive activities by manufacturers and/or distributors which would result in either (1) resale price maintenance or (2) boycotts of customers seeking to obtain particular types of merchandise. Dr. Miles Medical Co. v. John D. Park & Sons, 220 U.S. 373 (1911); United States v. Parke, Davis & Co., 362 U.S. 29 (1960). The proposed legislation provides a ready tool for circumventing these prohibitions.

Claims of trafficking in counterfeit marks are often made when a retailer who adheres to manufacturers' suggested retail prices complains to a name-brand manufacturer that another retailer is discounting the name-brand manufacturer's merchandise. Competitors in the sale of trademarked goods can, through the provisions of this bill, directly affect the ability of the discounter to compete.

Provisions of this bill would permit and encourage improper interference with the channels of distribution of trademarked goods. There are presently a number of legitimate wholesale sources of trademarked goods other than the trademark holder manufacturers and their licensees. These "middlemen" sources often purchase closeouts and overruns from the trademark manufacturers, from small retailers and even from full price retailers.

A retailer may buy trademarked goods from any, or all, of these sources. Buying from these sources may enable it to get the goods at better prices. This, of course, enables it to offer better prices to the consumer. The rapid growth of the discount retail industry is surely convincing proof that the consumers want the opportunity to buy at discount prices.

The retailer's freedom in buying from the many sources I have mentioned could be severely restricted through the use of the search and seizure provisions of this bill. Section 2(e) provides for the issuing of ex parte warrants to search for and seize "any property or other matter" which may be evidence of a violation. The term "other matter" could be interpreted to allow seizure of materials of a sensitive business nature such as bills of lading, purchase orders and other similar documents. These types of documents would provide confidential information about a retailer's competitive sources of distribution.

The net effect of this provision would be to set up a policing program which would enable the manufacturer who is interested in maintaining resale prices to ascertain the sources from which discounters obtain merchandise and to cut those sources off. Such policing has been held illegal in a number of federal court decisions. FTC v. Beech-Nut Packing Co., 257 U.S. 441 (1922); United States v. Bausch & Lomb Optical Co., 321 U.S. 707 (1944); United States v. Parke, Davis & Co., 362 U.S. 29 (1960).

This provision would limit and even eliminate the retailer's ability to buy goods at lower prices and to pass these lower prices along to its customers. Competition in the retail sale of trademarked goods would be restricted.

Allowing seizure of the type of documents I have already mentioned and the resulting restriction of channels of distribution could compel retailers to buy goods only from the limited sources sanctioned by the trademark holders. They would be able to buy only at the prices established by the trademark holders. Furthermore, in being able to control sources of supply, the trademark holders could impose restrictions on retailers as to the retail prices at which they may sell the goods.

Under this bill it would be too easy for trademark owners who are not happy about their goods being sold at discount prices to make false charges and claims of illicit trafficking. There is no provision in the bill which would in any way discourage its use to further actions based on anticompetitive motives.

Inequitable Nature of the Bill

The provisions of S.2428 are strikingly inequitable. These inequities include the search and seizure provisions, the absence of safeguards to the filing of promiscuous trafficking claims and the provision relating to estoppel.

The ex parte search and seizure provisions of sections 2(d) and (e) are manifestly unfair. There is no convincing reason, I feel, why an established retailer should not be heard before its goods and records are seized.

A seizure of goods is, under any circumstances, very damaging to a retailer since it is accompanied by considerable negative publicity. Customers read, hear and remember only charges that counterfeit goods are alleged to be sold and even where the goods are proved legitimate, the damaging effects of such publicity can never be overcome. Goods which are

seized in error may be unsellable owing to their seasonal or fad nature when they are returned.

The lack of standards for issuance of the search and seizure orders in the bill is a serious shortcoming. Not only are retailers not given any notice of a hearing or a chance to contest an application for an order, no standards are provided as to when such an order should be issued.

The bill would encourage name-brand manufacturers to bring civil actions and to seek ex parte search and seizure orders because they have everything to gain and nothing to lose. A trademark owner can bring a civil action and recover: (1) treble damages; (2) defendant's profits; and (3) cost of investigating the violation and prosecuting the suit including investigator's and attorney's fees.

While providing these substantial remedies which, for the most part, are already provided for in the Lanham Act, the bill has no provisions which would in any way discourage the filing of unwarranted claims. If a trademark owner loses the action, all that is lost is the cost of that action. The defendant, on the other hand, has had goods and documents seized and has been subjected to damaging and irreversible publicity. Given the old maxim that only the filing of a lawsuit is reported, never the dismissal, it is easy to understand why we, as retailers, perceive an inequality in not providing an opportunity to be heard before seizure of goods and documents, standards for issuance of seizure orders, security against improper seizure orders or damages for unfounded civil actions.

The estoppel provision of S.2428 is also unfair. The terms of the provision refer to a "final judgment or decree" in favor of the United States in a criminal action. A "final judgment or decree" could certainly be interpreted to include a nolo contendere plea. Therefore, a defendant would be forced to engage in a potentially costly and time-consuming criminal defense in order to try to avoid the consequences of being estopped in other civil litigation. And those consequences could be severe given the scope of the civil remedies.

This Bill is Unnecessary

This bill is, we feel, unnecessary. The problem of counterfeit trademarked goods can be, and is being, adequately addressed under existing laws.

The present civil remedies for trafficking in counterfeit trademarked goods are adequate. The Lanham Act now provides for damages, including treble damages, costs, injunctions and seizure and destruction of

counterfeit goods. These remedies are quite similar to those provided in S.2428 except that they preserve the traditional concepts of due process long guaranteed in judicial proceedings. Moreover, a plaintiff may use the discovery rules of the Federal Rules of Civil Procedure to obtain documents relevant to a particular case.

Not only are the remedies of the Lanham Act adequate, they are being regularly used by trademark holders. As evidence of this, one has only to read three recent stories in Women's Wear Daily. Articles dated August 3rd, 9th and 27th (copies attached and marked Exhibits "A", "B" and "C") detail instances in which restraining orders have been issued, goods have been seized and sales records confiscated.

The proposed criminal sanctions are also unnecessary. There is already a federal criminal mechanism allowing seizure and forfeiture of imported counterfeit goods - and the majority of counterfeit goods are imported. In addition to being redundant, the proposed criminal sanctions violate traditional concepts of due process by allowing name-brand manufacturers to act as prosecutors as well as complaining witnesses in criminal proceedings brought in the name of the United States government.

Problems of Vagueness and Overbreadth

There are definitional problems in this bill which are inescapably intertwined with its basic purpose and scope. The basic term of this bill, which carries enormous civil penalties as well as criminal sanctions, "counterfeit mark" is defined by reference to the definition of "counterfeit" already contained in the Lanham Trademark Act. There the term is defined as a "spurious mark which is identical with, or substantially indistinguishable from, a registered mark". In Webster's Dictionary, the term "spurious" is defined as "not legitimate" or "not genuine".

Such a broad definition could apply to traditional trademark infringement claims and circumstances in which a trademark licensee manufactures a number of trademarked items over and above the number allowed under the license. In any case, the question arises as to what is covered as "counterfeit" merchandise. "Back-door" sales - in terms of the agreement between the trademark holder and the licensee are certainly "not legitimate". If they are "not legitimate", they could then be considered "spurious" and, therefore, counterfeit under the terms of this bill. A retailer who has no way of determining whether a licensee is abiding by its trademark license could be held liable for trafficking in counterfeit goods.

The problem of identifying what is counterfeit is further complicated by the fact that trademark holders are, themselves, often unable to

distinguish between real and counterfeit merchandise. They are often unable, or unwilling, to identify their specifications. This may be due, in some cases, to quality control problems which occur when goods are manufactured by different companies or in different locations. The overmanufacture of licensed goods, of course, further exacerbates this identification problem.

Where, in the past, questions of trademark infringement would be addressed in a context of civil litigation, this bill could create liability and impose substantial criminal penalties based on the broad definition of a "counterfeit mark" borrowed from a civil statute. Although the bill requires that the defendant know that a trademark is counterfeit, the language could subject a retailer to criminal action where that retailer is merely aware that there is a civil contract dispute between a trademark holder and its licensees regarding goods produced under the license.

Conclusion

We are completely opposed to the enactment of the bill. We do not feel that this bill would be a necessary or effective answer to the problem of counterfeit trademarked goods.

This bill would impose substantial and inequitable burdens on members of the retail industry who would be subject to severe criminal sanctions and to civil remedies with enormous financial consequences. The bill fails to allow for basic due process guarantees. It is unnecessary since the Lanham Act provides virtually the same types of relief. The bill has real potential for anticompctitive impact at the retail level.

This bill is ill advised, unnecessary and has great potential for harm. It creates problems far worse than the one it purports to correct. We urge the Committee to reject S.2428.

Tnank you, Mr. Chairman

EXHIBIT "A"

GENERAL MILLS GETS ORDER ON BOGUS LOGO

LOS ANGELES.—In an effort to stem retail counterfeiting of its alligator logo, General Mills and Lacoste Alligator S.A., has obtained a temporary restraining order in the U.S. District Court against 31 retailers in the Los Angeles area.

The action attempts to stop the retail outlets from selling knock-offs of Lacoste merchandise. Most of the retailers named in the suit are discounters and swap meet retailers. Several are located on Los Angeles Street in the downtown area. The restraining order forces the retailers to turn over the alligator logo items to either the court or to General Mills' attorneys, Lyon & Lyon.

A preliminary injuction hearing is scheduled for next Thursday before U.S. District Judge William Gray.

Los Angeles is the second city in which Lacoste's retail anti-counterfeiting team has filed suit. In May, 43 Miami stores were stopped from selling counterfeit goods.

EXHIBIT "B"

UNDER COURT ORDER, IZOD SEIZES SHIRTS

NEW YORK.—Izod Lacoste, under a court order, has seized 356 dozen shirts from Mintzer Mercantile Co., Inc., 588 Broadway, in a trademark-infringement suit against the wholesaler.

The order was signed by Federal Judge Robert W. Sweet, who also granted Izod a temporary restraining order.

Izod is seeking a permanent injunction banning the sale of counterfeit shirts as well as undetermined damages.

Miller, Montgomery, Sogi & Brady represents Izod.

EXHIBIT "C"

BOGUS IZOD SHIRT RAID COLLARS FIVE

NEW YORK.—Department of Consumer Affairs officials and representatives of Izod Lacoste raided five lower Manhattan retail stores Thursday afternoon and seized 90 counterfeit garments with an estimated retail value of $1,200.

Undercover consumer affairs inspectors purchased shirts in the morning and then returned in the afternoon to serve stores with violations after an Izod quality control administrator verified the merchandise as counterfeit.

The five merchants were charged with violations of a city consumer protection law which prohibits stores and individuals from representing merchandise as something it is not.

The five retailers face fines up to $500 for every counterfeit item inspectors found in the selling area. Under the consumer protection law, each piece of merchandise can be considered a separate violation. The maximum fines for a "knowing" violation is $500, and it is $350 for an "innocent" violation.

All five retailers who were served with violations said they did not know the merchandise was counterfeit when they bought it.

The stores served with violations were: A&P Sportswear at 33 Orchard St.; Superior Fashion at 81 Orchard St.; Pioneer Shirt Co. at 94 Orchard St.; Olympic Unixes at 158 Orchard St., and M&M Mens and Boys at 167 Orchard St.

The raids were part of a crackdown on counterfeiting by General Mills, parent company of David Crystal, maker of the Izod Lacoste shirts. On Wednesday, the company secured a federal court order authorizing the confiscation of goods illegally marked with the Izod trademark. The court order applies to established retail stores trading in counterfeit merchandise as well as street peddlers. The court order can be served until 5 p.m., Aug. 31.

In addition to confiscating the shirts, lawyers acting on behalf of Izod seized sales records from five stores in hopes the information will allow them to track down wholesalers and manufacturers of counterfeit merchandise.

Mr. HAARZ. Thank you, Senator.

If enacted, S. 2428 could have a harmful impact on members of the retail industry and consumers, which is greater than the problems presented by the sale of counterfeit merchandise. S. 2428 is

anticompetitive, inequitable, overbroad and unnecessary. It would undermine competitive protections available currently to consumers and retailers, by allowing name brand manufacturers to improperly control the channels of distribution of their trademarked goods.

Through its search and seizure mechanism, trademark owners will be able to locate sources of discounted merchandise and cut off those sources, thereby maintaining resale prices.

S. 2428 fails to provide any safeguards against, or compensation in the event of unfounded claims of trafficking in counterfeit goods. Under this bill, trademark owners have everything to gain and nothing to lose by making counterfeit claims.

Substantial civil damages, attorney fees, costs, interest, as well as criminal liability can result from a successful counterfeiting claim. But a defendant forced to defend against unfounded counterfeiting claims receives nothing to compensate it for its damages, attorney fees, costs, and the adverse publicity.

As an anecdote, I would like to say that a trademark owner could refuse to do business with a retailer, thereby forcing the retailer to purchase from a legitimate middleman, who buys closeouts, overstocks, and the like. Under S. 2428, that trademark owner can accuse the retailer of trafficking in counterfeit goods, and without notice to the retailer or security for any damages that the retailer may incur, obtain a search and seizure order for the retailer's stock of merchandise purchased from that middleman, as well as any records reflecting the source of the merchandise.

This search and seizure can be carried out with considerable publicity, which could injure the retailer's reputation in the eyes of its customers, and even if these claims of trafficking prove groundless, the retailer cannot recoup the cost of defending itself, since there is no security against the loss of the legitimate merchandise seized, and no repayment for the irreparable damage to its reputation.

The Trademark Counterfeiting Act of 1982 is unnecessary because of the problem of counterfeit trademark goods can be and is being addressed under existing law, such as the Lanham Act.

The Lanham Act provides trademark owners with the ability to obtain injunctions, whether they be temporary, ex parte or permanent, defendant's profits, any damages that the trademark owner sustains, including treble damages, the cost of the action, the destruction of infringing labels, and allows orders banning the importation of counterfeit goods.

Trademark owners have also been successful in obtaining ex parte seizure orders against counterfeiting, which are discretionary under current law, and also under S. 2428.

With this wide range of remedies currently available, there is no need for S. 2428. S. 2428 is also overbroad and vague. The basic term contained in the bill which leads to the enormous civil penalties, as well as criminal sanctions, quote counterfeit, is defined with reference to the Lanham Act, a civil act. This broad definition of counterfeit from the Lanham Act could lead to the use of S. 2428 in connection with contract disputes between trademark owners and their licensees, as well as traditional trademark infringement actions.

AGMC is opposed to the enactment of this bill, since we do not believe it is necessary or effective as an answer to the problem of counterfeit goods. The bill fails to allow for basic due process guarantees, and has real potential for competitive harm.

We urge the committee to reject S. 2428.

Thank you, Mr. Chairman.

Senator MATHIAS. Does K Mart handle automotive products, oil?

Mr. HAARZ. Yes, sir, we do.

Senator MATHIAS. Mr. Venne, do you have those—Valvoline counterfeits?

Mr. VENNE. Yes, sir.

Senator MATHIAS. I thought you had an illustrative——

Mr. VENNE. Yes, I do, Senator.

[Mr. Venne placing oil cans on the witness table.]

Senator MATHIAS. Mr. Merrall, do you have Bausch & Lomb counterfeits?

Mr. MERRALL. Yes, I do.

Senator MATHIAS. Do you handle sunglasses, Mr. Haarz?

Mr. HAARZ. Yes, we do.

Senator MATHIAS. Mr. Fink is holding up a belt back there. I do not know whether K Mart handles those things or not.

Mr. FINK. They handle name belts that are manufactured like these, they go under a different name.

Senator MATHIAS. Well, why do you not lay the belt out on the table, too?

[Mr. Fink placing belts on the witness table.]

Senator MATHIAS. My only point in asking this is, I would ask Mr. Haarz whether this creates a problem for a major merchandiser like K Mart.

Mr. HAARZ. Well, to begin with, we, first of all, deal with name brand manufacturers. We would be buying Valvoline oil from Valvoline. We would be buying Ray-Ban from Bausch & Lomb. We do handle products from—I know from Bausch & Lomb. It has been indicated that we do buy Gates under a private label. So there would be no need for us to handle Gates' products.

We first and foremost deal directly with name brand manufacturers. Only when those name brand manufacturers—and there are very few of them, refuse to deal with us because we discount, are we ever forced to buying from these middlemen that we have discussed.

Senator MATHIAS. So that the Chair could be absolutely equitable and impartial, there will be no charge to you for that commercial.

But, K Mart is a big company, one of the biggest merchandisers in America, is that not true?

Mr. HAARZ. We are the second largest retailer.

Senator MATHIAS. So therefore you obviously are able to deal directly with the producers of name brand goods?

Mr. HAARZ. With the vast majority of them, yes.

Senator MATHIAS. Except in those few cases that, as you indicated, as a matter of policy, who do not approve of discounting?

Mr. HAARZ. Yes.

Senator MATHIAS. But what about a smaller merchandising operation? Would they have problems with this kind of counterfeited goods that we have on the table there?

Mr. HAARZ. I cannot speak for all retailers, but the retailers that I have dealt with, both in the trade associations, out of the trade associations, first attempt to deal with the manufacturers directly, that is the first and foremost way of dealing with people, because it is the easiest. It is only when, for some one reason——

Senator MATHIAS. But a neighborhood hardware store has little difficulty of doing that.

Mr. HAARZ. Well, neighborhood hardware stores are usually members of buying associations, and which do have certain economies of scale, and do deal with name brand manufacturers.

Senator MATHIAS. In the statement that Mr. Rakoff submitted, which he thoughtfully did not read in full, in all its 152 page complexity, he addressed one of the objections that you raised, and that is the possible abuse of the provisions by manufacturers, to find the suppliers or the middlemen of discount retailers for the bona fide products on the shelves.

He says the same danger exists under the Lanham Act. Have you experienced any abuses of the Lanham Act, or any other laws, by manufacturers, to find out who supplies the discount to the retailers for their product?

Mr. STEELE. Senator, if I may be allowed to answer that.

I represented K Mart where a question was raised under the Lanham Act in regard to so-called counterfeit merchandise. It turns out to be a baseless charge. After being investigated, and after we had discussed it with the manufacturers, it was dismissed in total.

The difference under this proposed legislation, which would be very drastic, is that the manufacturer could have obtained an ex parte order, impounding goods, and rendering them valueless.

We could have been subjected to a situation where sources of supply might have been divulged, and might be unwilling to deal with us. The difference is strictly a procedural one, that these ex parte remedies which are, we feel, inconsistent with the basic due process requirement of our statutory scheme, allow for drastic remedies that constitute overkill. And tied into what appears to be a developing confusion that is documented in the testimony this morning, between a very legitimate desire to stop counterfeiting, and a possible affirmative feeling toward resale price maintenance, having heard today at least one witness state that resale price maintenance is procompetitive.

Although the Supreme Court has held that it is anticompetitive, and per se illegal, under all the decisions since the *Dr. Miles* case in 1911, and since Congress has affirmatively rejected the fair trade laws which would permit trademark owners to have resale price maintenance.

We are concerned at the confusion that has developed between resale price maintenance and the obtaining of these legitimate objectives, and we are fearful that with the additional ex parte remedies that resale price maintenance can be obtained on an easy, and perhaps the way to say it is, a cheap and easy basis, putting the retailer at a tremendous disadvantage, and leaving him to his recourse under the Sherman Act at some future time.

Under the existing system, if a manufacturer felt that a retailer was being—handling counterfeit goods, he could, of course, apply

for a temporary restraining order, or seizure order, and if the retailer had a chance to be heard, he could present his evidence to show that the goods were in fact not counterfeit, present any number of defenses, or show that there was a bad purpose in this, and certainly the equity would not act in such a situation. He would be able to show the potentiality of a particular purpose under the antitrust laws, and I believe any Federal judge would listen to that.

But once the veil of secrecy is drawn in the ex parte proceeding, and the retailer does not have a chance to present his evidence, until after his merchandise is seized, and he has been subjected to the stigma of trafficking in counterfeit goods, on the televisions, and on the newspapers, it is unfortunate that in the retail business, with the consumer impact of it, but so often when there is a regulatory problem, the television is right there to watch merchandise being taken away, and irreparably to injure the retailer, regardless of what happens in a subsequent hearing.

So it is in an abundance of caution, not in a desire to halt a very legitimate approach to counterfeiting, which is a problem, but in an abundance of caution to protect the regulatory laws which are on the books today, and see that they are not undermined, and to keep a competitive profile for the retailer, that we think that these highly unusual and drastic changes in the procedural laws should be embodied upon this bill.

Senator MATHIAS. Well, that is a very comprehensive response.

Let me go one step further with you, and ask if there are any changes in language or tightening amendments that you can see that would eliminate the opportunities for abuse of the bill, which you talk about, but which would retain the basic proposal for creating a crime against trademark counterfeiting?

Mr. STEELE. I think, on the very brief basis that I have reviewed this, and I know that Mr. Haarz will have trademark comments, but let me make mine from an antitrust standpoint.

I think it demands considerable additional study, from at least three standpoints. I think studies should be done to see if it is consistent with other legislation. I think the provisions for ex parte remedies, the seizure of documents and the seizure of materials is one of the obvious flaws in the bill.

Now, there are two aspects——

Senator MATHIAS. Let me interrupt you right there.

Does the Trademark Association suggestions of further guidelines for the issuance of ex parte orders to seize, or restraining orders under 2(e), does that begin to address the kinds of qualms that you have?

Mr. STEELE. I do not feel that it does, at this point. I think that more study is necessary, to look at that, as to understand what circumstances this ex parte seizure could take place.

As the statute stands right now, there is no standard whatsoever as to when a judge can issue this type of ex parte seizure. There is no standard as to what type of showing an applicant must make in order to get an ex parte seizure.

Now, that is a great big loophole. The question comes immediately to mind, does an applicant have to make a showing of knowledge.

Well, I would argue, of course, that he did, but I am sure the applicant might very well, if he is anxious to stop the counterfeiting, say look, it is not in the statute. We do not have to make any proof of knowledge. All we have to do is to show that there is some goods here.

What kind of proof does he have to show that it is a counterfeit to the goods? That is not addressed, either.

I suggest that that is a very real subject for study. Let us go on to the question of obtaining documents by these ex parte orders.

Now, as you know, Senator, Rule 26 of the Federal Rules of Civil Procedure provides today the broadest and most liberal type of discovery in Federal proceedings, that has been known to man, much broader than in State courts, much broader than in European countries, and yet here we are carving out a type of discovery that is totally inconsistent with the Federal Rules of Procedure, and I think that is a subject for study.

Injunctive relief, and so forth, the question of whether there is a consistent approach with the Lanham Act in terms of possible misuse of trademarks, which might, which also dovetails, of course, in 90 percent of the cases, as a practical matter, when you get into court, it dovetails with the antitrust laws.

In the vast majority of the trademark cases I have brought, where misuse defense has been raised under the Lanham Act, it has also involved antitrust questions, and whether this legislation is consistent with that, as well as with section 1 of the Sherman Act, or section 4 of the Clayton Act, the treble damage section, is another subject that I do not find has been addressed in any of the literature that has been provided here today, by any of the witnesses testifying in favor of this legislation.

Senator MATHIAS. Well, that is an omission which they have 2 weeks to remedy, since the record will be held open for that question.

But do you have any further comments, Mr. Haarz?

Mr. HAARZ. Well, I would like to state that there certainly is a basis for improving the bill from the USTA testimony.

I would also specifically like to point out that there should be a two-way street in the damage provision, if this bill is to be seriously considered, that if a trademark owner brings an action, and fails to proceed, or has a judgment entered against him, and the defendant prevails, that the defendant should be able to recover its costs and damages and attorney fees.

Senator MATHIAS. Well, I think you have given us some further thoughts, and some useful testimony on some problems with the bill, and obviously, as we said, when Mr. Baxter was testifying for the Department of Justice, this is a first draft, and this is the whole purpose of the congressional process. To get ideas and suggestions when implementing solutions to problems, and to refine them, and polish them, and that is what we are about here.

Your testimony has been very useful to that end. So we thank you very much for being here.

As has been previously announced, the record will be held open for 2 weeks. If there are further statements, we will be glad to receive them. We are particularly anxious to have the further infor-

mation from the Department of Justice on the study which was referred to in Mr. Baxter's testimony.

Thank you all for being here, and the committee stands adjourned, subject to the call of the Chair.

[Whereupon, at 12:03 p.m., the committee adjourned, subject to he call of the Chair.].

APPENDIX

VALIDAMARK, INC.
TRADEMARK INVESTIGATIONS
476 5TH STREET
SAN FRANCISCO, CALIFORNIA 94107

August 18, 1982

Sen. Charles Mathias, Chairman
Senate Judiciary Committee
Dirksen Senate Office Building
Washington, D.C.

Re: Hearings on S. 2428, the "Trademark Counterfeiting Act of 1982."

Dear Senator Mathias

The International Anti-Counterfeiting Coalition has asked our firm for comments and written testimony concerning Senate Bill 2428, hearings on which are scheduled for Wednesday, September 15, 1982.

We welcome the opportunity to participate in this legislative process because we believe that this legislation is long overdue, is highly beneficial to American industry and will be beneficial to our field of trademark investigations.

The undersigned are officers of a California corporation which investigates trademark and copyright infringements on behalf of American and foreign corporations. It is our impression, based on over ten years' experience in this field, that the copying of trademarks by counterfeiters is increasing, both here and abroad. Five years ago there was little trademark counterfeiting in this country; now we encounter frequent instances. It would seem that the present economic downturn combined with the relatively feeble legal sanctions against counterfeiting have emboldened hard-pressed corporate officers to manufacture goods which they know they are not entitled to reproduce, in the hope that they can "get away with it."

Additionally, we recently have seen a very damaging pattern of counterfeiting develop: production of falsely labelled goods in the Far East, in such countries as Taiwan, Singapore, Hong Kong and Korea; their transshipment in bond through Customs in the United States; and delivery to an ultimate consignee in either South America or Africa. We need not remind the Committee that these goods are contraband in the country of production as well as in all the countries to which they may be shipped. Every nation has a trademark infringement provision in its laws and many proscribe knowing production of goods even if the trademark in question is not locally registered.

These transshipments in bond, while not technically within the United States, often severely damage American industry because many of the marks used are owned by United States companies.

We also are encountering cases where counterfeits manufactured abroad are being shipped directly into the United States, or transshipped north from Mexico. These goods, often of obviously inferior quality, compete directly with the genuine goods in the marketplace.

It is our opinion that the proposed legislation will be extremely helpful to us in our investigations. Specifically, we wish to comment on certain language in the Bill:

Sec. (c) (1). The inclusion of language empowering "an agent" of any trademark owner to sue in any district court is welcome to us because it will enable us, when duly empowered by our clients, to initiate actions on their behalf. Naturally such suits, even if initiated by us, would include the trademark owner as co-plaintiff and would mainly be conducted by the trademark owner. Many of our clients are foreign corporations who would have real difficulty in taking speedy action to stop an infringer, so this provision will help them considerably.

Even in cases where the client is an American corporation able to initiate the suit, our investigators would commonly be importantwitnesses since they have been instrumental in contacting the counterfeiters, hearing their promises of delivery of the counterfeits, the purchase of samples, the procurement of invoices or bills of lading, in other words, in the development of the evidence to create the case. The language of Sec (c) (1) is the first specifically to recognize the role of the investigator.

Section (e) of the proposed Bill speaks of "knowing trafficking". We are pleased to see this language, which expresses, we believe, quite succinctly, exactly what counterfeiters do when they produce and sell falsely labelled goods.

Section (e) will often be invoked by our investigators. Counterfeiters are usually "fly-by-night" operators. They try to fill orders for counterfeits and ship them out within days or even hours. Our ability to go into court and obtain a warrant to seize the goods will be much enhanced by this provision. Our experience is that these warrants must be ex parte. Giving the manufacturer even a few hours' notice often means that nothing is found in the factory when the court order is executed.

Sec (3) (d). One of the major difficulties which faces a successful plaintiff in a trademark infringement suit is - what to do with the counterfeits. In an effort to minimize damage to the defendant as well as from a desire to balance the equities between the parties, courts often decree that only the indicia of origin be removed from the counterfeits before they are returned to the defendant. Theoretically this may be fair but practically speaking, the defendant is often a small businessman who does not have either the money or the personnel to remove the labels or re-print the cartons. Plaintiffs find themselves forced to pay out of their own pockets for the removal of counterfeit labels. Even after removal, the goods may be so close in appearance to the genuine article that their appearance in the market (commonly as distressed goods or in discount houses) will damage the plaintiff's markets. Thus Sec. (d)'s provision for destruction or donation to charity fills a serious gap in the court's powers and is much more fair to the plaintiff.

Moreover, destruction or permanent forfeit... a deterrent to counterfeiters.

In the same Section, we welcome that language which provides that "all means of making the counterfeits" as well as the counterfeits themselves shall be delivered to the court. Often it is the matrix, the mold, the pattern or the die which constitutes the counterfeiter's main investment in the process of creating the counterfeit. As in the case of tee-shirts, toys or decals, the product itself may be very inexpensive to produce. Taking these molds out of the hands of the counterfeiter will help to prevent him from easily moving his operation down the street to another factory, to recommence counterfeiting under another corporate name.

Sec. (c) (1) (A), (B) and (C) These provisions for treble damages, defendant's profits and for costs of investigation are a considerable advance over past legislation. Our experience is that a small corporation, faced with wholesale pirating, may be damaged by being forced to hire investigators to protect its share of the market. Giving the plaintiff hope that he may be able to recoup these costs will encourage him not to let infringements multiply.

We do not consider the provision for fines of up to $[illegible] for a person or $1,000,000 for a corporation to be excessive. Many a shady corporation considers the present fines to be merely a cost of doing business.

In conclusion, we urge the Committee to approve this legislation as drafted and to submit it to the Senate in its present form.

Sincerely yours,

Ann Sharp Fisher
President, Validamark, Inc.

Michael Fehr
Secretary and Treasurer
Validamark, Inc.

ASF/MF/me

IPO INTELLECTUAL PROPERTY OWNERS, INC.

September 13, 1982

The Honorable Charles McC. Mathias
Commitee on the Judiciary
2226 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Mathias:

On behalf of Intellectual Property Owners, Inc. (IPO) a nonprofit organization representing the owners of patents, copyrights and trademarks I would like to submit the following statement for the hearing record on S. 2428.

There is a substantial need for criminal legislation against counterfeiting. The public must be protected against inferior, and sometimes dangerous, goods and services; and the legitimate owners and users of marks must be protected against being impaired in reputation and deprived of the just rewards from their honest investment.

We hesitate, however, to endorse bill S. 2428 in its present form. Our hesitation derives from two concerns. First, given the stringent criminal sanctions to be imposed--appropriately--on those found guilty of counterfeiting, we are apprehensive that the net is drawn too loosely in the definition of what constitutes a counterfeiting violation under the bill. While the aim is at the hard core offender, others may be embraced within the coverage of the bill whose offense is not, for example, the heinous act of a member of organized crime.

Second, we are concerned that such a statute would be misused in what are, and should continue to be, essentially civil controversies under the Lanham Act. Although the rights of owners and users of marks must be vigorously protected, it must be kept in mind that, of course, not every claim of trademark infringement is necessarily a valid claim. Yet the enactment of the bill would place in the arsenal of every infringement claimant--those with, and those without, meritorous claims--a weapon which is probably more powerful than most circumstances warrant.

The civil remedies under the bill would mandate far more substantial recoveries to successful plaintiffs and far more substantial penalties to unsuccessful defendants than the Lanham Act now provides. It would therefore be only the most imprudent attorney for an infringement claimant who would not as a routine matter plead a violation of the proposed statute as well as a violation of the Lanham Act.

Similarly, while a claimant's explicit threat to file a criminal complaint under the statute would of course be improper, the mere knowledge that violation of the statute is a crime may make the implication of such a threat a concomitant of any civil claim under it.

In sum, we would prefer that any new statute against counterfeiting have a sharper focus of definition related more exclusively to the professional counterfeiter and limiting the enhanced civil remedies more clearly to claims only against the more egregious offenders.

Sincerely,

Joseph P. Allen
Executive Director

JPA/arg

STATEMENT OF MONSANTO COMPANY

ON S. 2428

SUBMITTED TO

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

Wednesday, September 15, 1982

We are submitting this statement on behalf of Monsanto Company, a major multinational chemical firm headquartered in St. Louis. Monsanto sells more than 1,000 products in 100 countries. These include agricultural and other chemicals which are of particular concern in respect to this hearing.

Monsanto supports S. 2428 and urges this Subcommittee to recommend the passage of this important legislation.

Commercial conterfeiting is the intentionally deceptive commercial use of unauthorized imitations of federally registered trademarks in order to sell the counterfeit to consumers who believe they are purchasing the genuine article. This practice obviously cheats both the buyers and the owner of the trademark but provides enormous profits to the counterfeiter. In recent years, international commercial counterfeiting has ballooned into a huge operation that has cost reputable manufacturers throughout the world billions of dollars and has defrauded and even physically threatened millions of consumers.

Previous public and private efforts to combat commercial counterfeiting have been few and ineffective. Thus, the Mathias Bill deserves the support of all Americans for only

through such comprehensive legislation, combining both civil and criminal penalties, can we hope to control this problem.

SCOPE OF THE PROBLEM

Commercial counterfeiting is nothing new; examples of counterfeit marks exist from Greek and Roman times. But, the enormous scope of counterfeiting today is new. It largely results from the sophisticated technology now available to unscrupulous manufacturers and merchandisers that enables them to produce cheap, inferior but superficially similar copies of a wide range of quality products. There has been much discussion in such publications as The Wall Street Journal of the counterfeiting of luxury goods (apparel, jewelry, cosmetics, recordings, tapes, etc.). However, there has been less attention given to the counterfeiting of drugs, fertilizers, chemicals, and an almost endless variety of other industrial and commercial products. Commercial counterfeiters are increasingly concentrating on basic consumer products, copies of which can adversely affect the health and welfare of consumers across the economic spectrum. There are, for example, counterfeit substandard aircraft and helicopter parts, counterfeit heart pumps in more than 200 hospitals across the country, and, most dangerous of all, counterfeit drugs which have probably been responsible for deaths and injuries in this country.

Monsanto is particularly concerned about the counterfeiting of herbicides and pesticides. Although no such counterfeiting has yet occurred in this country to our knowledge, the well-documented case of the counterfeit fungicide that virtually destroyed the coffee crop in Kenya in 1979-80 raises the real possibility of such counterfeiting here too. Because coffee is an important product of Kenya, the loss of almost an entire crop obviously worked a great hardship on the whole economy. Current laws do not preclude a similar economic

disaster in the United States. And, by placing the customer's well-being at the mercy of a counterfeiter's greed, commercial counterfeiting makes a mockery of government health and safety regulations.

INADEQUACY OF EXISTING SANCTIONS

Commercial counterfeiting is a lucrative and low-risk venture. It flourishes especially because few measures have been undertaken to curtail it and those few are wholly inadequate.

Unfortunately, the primary piece of existing trademark legislation, the Lanham Act, provides only limited civil sanctions and no penal sanctions. There is no federal criminal law outlawing commercial counterfeiting per se. Moreover, the limited civil remedies now available have left even the largest companies unable to stem the tide. Although many victimized companies have gone to great expense to track down commercial counterfeiters, the results, in terms of deterrent effect, have been mimimal. The consumer, who is the immediate victim, is rarely able to take direct legal action against the commercial counterfeiter.

THE PROPOSED LEGISLATION: S.2428

In view of the magnitude of the problem and the ineffectiveness of current efforts to deal with it, new legislation mandating both criminal and financial penalties for commercial counterfeiting is critical to the protection of American consumers and business. Only when those who engage in commercial counterfeiting face the real threats of imprisonment, fines, damages, and forfeiture of their goods, will they abandon their fraudulent conduct.

Even with the strong criminal penalties contained in S.2428, it is likely that only a fraction of the commercial

counterfeiters will be prosecuted criminally under the proposed law. Thus, the provisions in the act granting trademark owners the right to bring civil action against commercial counterfeiters are crucial.

The aim of the civil provisions of S. 2428 is to create an effective financial deterrent to counterfeiting by greatly increasing the cost of getting caught. Together with the criminal sanctions, these civil sanctions will contribute significantly to controlling the current explosion of commercial counterfeiting.

Monsanto strongly encorses the Mathias Bill and urges this Subcommittee to recommend its early passage. We will be happy to provide any further comments or suggestions to this Subcommittee or to respond to any questions about the position set forth in this statement

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TESTIMONY OF ENDICOTT PEABODY

ON BEHALF OF

NATIONAL MASS RETAILING INSTITUTE

My name is Endicott Peabody of the law firm of Peabody, Lambert & Meyers in Washington, D.C. I appear on behalf of the National Mass Retailing Institute ("NMRI"), an association of approximately 125 retail companies with over 10,000 stores and nearly $60 billion in annual sales. While NMRI supports the theory of this bill -- to rid the market of counterfeit goods -- we oppose the methods of this bill and, hence, we oppose passage of S. 2428 as presently drafted.

NMRI and its members strongly condemn the marketing of counterfeit trademark goods. Such counterfeit sales are, quite simply, theft. This kind of theft certainly injures the holders of the tradename, most often manufacturers, by decreasing the amount of sales a tradename holder might otherwise have had. The theft also injures any person that sells or owns a tradename product. The presence of counterfeit goods in the market injures legitimate retail sellers of brand name goods by inducing customers to shop at stores that carry counterfeit goods, rather than at legitimate retail outlets. Counterfeit goods also injure consumers who may believe that they have purchased a certain quality of goods with certain warranties. In short, counterfeit goods are theft from all persons in the distribution chain.

Unfortunately, the present bill is a heavy-handed, over-reaching method of redressing that theft. Rather than targeting the counterfeit thieves -- those who rely on unfair competition tactics -- the bill appears to allow incursions into areas of fair competition by inviting examination of the marketing strategies of honest businessmen. The bill appears to encourage forays by a manufacturer into the confidential business records of companies dealing in legitimate goods in order for the manufacturer to control the entire distribution process.

Permit me a brief and elementary discourse on the distribution of goods in this country, the settled antitrust rules applying to distribution schemes, and the current "supply side antitrust"

theories of government antitrust officials who are attempting to topple established rules of distribution. In this country, goods are most often manufactured by one set of companies and distributed by another set of companies. At each level -- manufacturing and distribution -- we are benefited by competition. I think it is fair to say that the retail distribution market is characterized by far more competition than is the manufacturing industry. Whereas for any given product there are most probably less than 10 manufacturers, a consumer may buy that product from an enormous number of retail stores that vary in size, product mix, and location, including department stores, local specialty stores, and mass merchants who generally operate with higher volumes and lower profit margins.

For a variety of reasons, manufacturers want to control the distribution of the products that they manufacture. The antitrust laws, at present, allow a manufacturer to control nearly all aspects of the distribution of goods, except price. That is, a manufacturer can ordinarly select exclusive outlets, can define a distribution territory, and can attempt to prevent sales of its goods to unauthorized dealers. A manufacturer cannot, however, except in the rarest of circumstances, fix the price of goods charged by a distributor to a retail customer. Nor can a manufacture engage in practices that serve to enforce a resale price maintenance scheme. In short, the antitrust laws are price-sensitive and allow retail dealers the freedom to charge less than or more than the manufacturer's suggested list price. This freedom to price goods has resulted in enormous enhancement of consumer welfare: a consumer may price-shop for brand name goods. The quality of the brand name good will remain constant from store to store, as will the manufacturer's warranty, but the price may vary depending upon the distributor's efficiency and profit margin.

As this committee well knows, present administration antitrust officials seek to repeal the doctrine that resale price

maintenance is per se illegal. In other testimony before Congressional committees, NMRI has referred to the antitrust theories of Assistant Attorney General William Baxter as "supply side antitrust." Indeed, Mr. Baxter, in testimony before this committee on the counterfeit bill again endorses his supply side antitrust views.

This truncated discussion of the distribution of goods in our country and the antitrust laws governing distribution is necessary with respect to S. 2428 for two reasons:

(1) As noted above, Mr. Baxter has raised the issue with respect to this bill, suggesting that counterfeit legislation is not necessary if the antitrust laws on resale price maintenance are amended. That is, Mr. Baxter suggests that counterfeiters will disappear if the manufacturer can control the price at which his goods are sold;

(2) Mr. Baxter's comments aside, this bill, as presently drafted, encourages manufacturers to police price discounters in the market by filing spurious counterfeit charges against them.

With respect to the first point -- Mr. Baxter's supply side antiturst argument --we urge this committee to reject Mr. Baxter's rationale. The choice is not simply, as he portrays, between a manufacturer's control of all terms of sale at the distribution level or rampant counterfeiting of tradename goods. The elimination of the freedom to price goods is not necessary to curb tradename counterfeiting. To the contrary, the present antitrust laws can remain firmly in place and the problem of counterfeiting can be addressed in some other manner. Mr. Baxter's "either/or" proposal would completely deny to consumers the benefits of price competition. That is certainly too high a price to pay to redress the problems of counterfeiting.

Moreover, Mr. Baxter's proposal -- that price restraint will decrease counterfeiting -- is naive. It is not necessary to solve the problem. He avers that manufacturers are "afraid" to impose quality, service, promotion, and coding requirements on brand name sales because "any retailer who refused to abide by such arrangements can allege that the vertical restrictions were undertaken with the purpose of [sic] effect of controlling the resale price of the product." (Testimony of Assistant Attorney General William Baxter, September 15, 1982, at p. 5.) That state-

ment suggests that manufacturers -- generally with much more market clout than distributors are afraid to contract for reasonable terms because of fear of litigation. Mr. Baxter further posits that the judiciary is incapable of assessing the accuracy of a retailer's allegations: "Such allegations may well convince fact-finders lacking business expertise to find a resale price maintenance purpose when none in fact exists." That denigration of the skills of the judiciary is unbecoming. Most trial judges are well equipped to determine a manufacturer's real incentive for imposing a vertical restraint. If a restraint is a legitimate quality, as opposed to price, restraint, it will be approved by a court. If the restraint is a facade for a price fix, the court may uncover that ruse. If the trial court errs, appellate review is available. Mr. Baxter's aside that judges lack "business expertise" would seemingly suggest that the Antitrust Division is the only institution in our country capable of making business decisions. We trust that this committee will believe otherwise. In short, Mr. Baxter's argument that consumers must sacrifice price competition in order to insure the quality of brand name goods is simply incorrect.

Mr. Baxter's choice discarded, what can be done about counterfeiting? NMRI submits that the present bill --while probably not intended to allow manufacturers to control dealers' prices -- may nonetheless have that result. Accordingly, NMRI believes that the bill as presently drafted is not a suitable method of preventing counterfeit theft of tradenames.

In particular, NMRI fears that the seizure provisions of this bill will allow manufactures to police price discounters. While the antitrust laws prevent a manufacturer from setting the price of goods, manufacturers often nonetheless wish to set the price and to determine which retailers are selling below list price. This bill provides manufacturers with the temptation to determine the identity of price discounters -- and the discounters' sources of supply -- by the filing of a trumped-up claim of "counterfeiting." The bill has no explicit provisions that punish false applications for warrants to search so-called counterfeiters. At a minimum, the bill should set out some significant disincentive for the sub-

mission of false requests for search warrants. A manufacturer may well be willing to pay the price of defending a common law suit charging malicious prosecution in order to identify the companies that provide brand name goods to price discount stores.

One hypothetical set of facts demonstrates NMRI's concern with this bill. Suppose that a manufacturer "M" filed an ex parte affidavit that stated that (1) M did not sell shirts to discounter "X"; (2) all of M's distributors denied -- some falsely -- to M that they sold M's shirts to X; (3) X's stores had shirts, at 40% off M's list price, that were offered to the public as M's shirts. On that set of facts, could the manufacturer obtain a search warrant? NMRI fears that, in an ex parte proceeding without benefit of the discount store's evidence, a search warrant might issue. However, that set of facts is consistent with legitimate marketing. The truth is that X is probably not selling counterfeit goods but is only selling M's shirts at less than list price. The discount operation obtained the shirts from one of M's authorized distributors who, for whatever reason, chose not to sell directly the shirts that M had allocated to it but instead to sell to the discounter. As a result of obtaining the search warrant, the manufacturer will be able to cut off X's source of supply of the shirts. Consumers, in turn, will be denied the opportunity to price shop for brand name goods. It is conceivable that a manufacturer would file a search warrant claiming the sale of counterfeit goods but would in fact be seeking to determine the identity of sources of supply of discounters. The bill is simply inadequate in deterring manufacturers from initiating proceedings in order to police retail price maintenance in the marketplace.

In particular, NMRI points to the following inadequacies it sees in the proposed legislation:

> (1) Proposed section 2319(e) permits the issuance of a warrent to search and seize "any property or other matter" which may be evidence of a violation. That language is objectionable. First, an on-the-scene examination of the goods should be made by a competent examiner prior to seizure. Only if the goods examined are counterfeit may they be seized. Second, as presently drafted "other matter" might include all of the retailers' source of supply records for all goods. The identity of any middleman that sells brand name goods to a discounter could

thereby be discovered, which might then lead to the termination of manufacturers sales to that middleman and hence curtail brand name price competition. The "other matter" should be limited to the bills of lading and/or invoices only for the precise counterfeit goods that are seized.

(2) Proposed section 2319(e) requires a statement of "probable cause" by a person seeking a search warrant. There is no requirement that a statement be made by sworn affidavit, nor that the hearings on the warrant request be transcribed. NMRI's concern -- that manufacturers may rely on this statute to police their pricing decision -- will be somewhat alleviated if probable cause must be demonstrated by affidavit and if an adequate record is required so that judicial review is permitted. The affidavit must, of course, contain sufficient and reliable detail of counterfeitting. In addition, if a warrant is not issued, a copy of the application and affidavit should be submitted to the target of the search.

(3) NMRI is opposed to the ex parte nature of the proceedings. As this committee well knows, privat invocation of judicial machinery, in an ex parte fashion, to seize, attach, or replevy property has, for many years, been highly suspect under the Constitution. If allowed at all, ex parte search and seizure provisions must be the rarest. Proposed section 2319(d) --pertaining to the ex parte obtaining of a injunction -- requires that there be "due notice and opportunity to be heard" after the issuance of ex parte injunction, there is no comparable provision for proposed section 2319(e). That is, a civil claimant is entitled to obtain an ex parte search warrant and yet there is no provision for the target of the warrant to have "due notice and opportunity to be heard" before or after the issuance of the warrant.

NMRI thanks this Committee for the opportunity to present testimony on this legislation. We will, of course, be happy to answer any questions you may have.

Respectfully submitted,

Endicott Peabody

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On behalf of the National Mass
Retailing Institute

September 15, 1982.

National Retail Merchants Association

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September 15, 1982

Honorable Strom Thurmond
Chairman, Senate Committee
on the Judiciary
United States Senate
Washington, D.C. 20510

Re: S.2428

Dear Senator Thurmond:

The National Retail Merchants Association ("NRMA") is pleased to provide this Committee with its views on S.2428, a bill to amend the Criminal Code of the United States to strengthen the laws against the counterfeiting of trademarks. NRMA requests that its comments become a part of the record of your hearings on this bill.

NRMA is a voluntary, non-profit trade association whose over 3,500 members operate more than 35,000 department, chain and specialty stores throughout the nation. NRMA's members have an aggregate annual sales volume in excess of $95 billion and employ over 2.5 million workers. Approximately three-fourths of NRMA's members are small businesses, with annual sales of less than $1,000,000 each. Because NRMA's members sell trademarked goods and are themselves the owners of valuable trademarks and service marks, they are vitally interested in the subject matter of S.2428.

NRMA agrees that the knowing and willful manufacture or sale of counterfeit trademarked goods is an undesirable practice that should not be condoned. Indeed, such blatant trademark infringement is currently actionable under the Lanham Act, 15 U.S.C §§1051 et seq., which provides for injunctive relief, as well as treble damages and attorney's fees in egregious cases. Certainly, no one would dispute that one who knowingly and willfully deals in counterfeit trademarked goods is engaged in an egregious act.

NRMA's members are, however, concerned that this bill to strengthen the criminal and civil sanctions for trafficking in counterfeit trademarked goods would, if enacted, turn out to be a Pandora's box, at least from a retailer's perspective. In NRMA's view, the bill sweeps far too broadly and would unwisely empower trademark owners to obtain ex parte search and seizure warrants and impoundment orders.

S.2428 would add to the Criminal Code Section 2319, which would subject to substantial monetary fines and imprisonment anyone who "traffics or attempts to traffic in a counterfeit mark knowing the mark to be counterfeit." The term "counterfeit mark" is defined by reference to Section 45 of the Lanham Act, which states that it is a "spurious mark which is identical with or substantially indistinguishable from a registered mark." In addition, in order to be deemed a "counterfeit mark" under S.2428, the mark must be "used or intended to be used on or in connection with goods or

services for which the genuine mark is registered on the principal register in the United States Patent and Trademark Office."

NRMA has several fundamental concerns with this bill. While certain activities will clearly amount to knowingly trafficking in counterfeit marks, the broad language of S.2428 is not tailored to clear instances of such piracy.

Instead, S.2428 would subject retailers to the danger that a trademark owner would allege that a retailer is knowingly trafficking in a counterfeit mark because the retailer has been sent a notice that the trademark owner believes that the retailer is selling or advertising goods under a trademark that infringes its own. NRMA's members receive many such notices each year. Some claims are valid; many are not. NRMA does not believe that it is appropriate to insert in a criminal statute such vague phrases as "knowing the mark to be counterfeit," which are capable of many interpretations. Retailers should not be forced to guess, at risk of substantial criminal fines and imprisonment, whether the goods it receives from its suppliers bear marks that are "substantially indistinguishable" from a registered trademark.

As a threshold matter, NRMA believes that this Committee should consider whether it is necessary to criminalize the kind of trademark infringement that is the subject of S.2428. Selling counterfeit trademarked goods is, in essence, a wrong that devalues the exclusive rights of a trademark owner to deal in and control the quality of goods sold under its trademark. NRMA recognizes that counterfeit trademarked goods are a real problem and, in fact, NRMA's members are themselves harmed when they lose sales of the genuine trademarked goods to counterfeit copies. Nevertheless, it is questionable whether trading in counterfeit trademarked goods amounts to such a wrong against society as to be considered a federal crime.

Second, NRMA questions whether it is appropriate to give trademark owners a private right of action to enforce the provisions of S.2428. Trademark owners already have the right to sue under the Lanham Act, which provides for injunctive relief, actual damages, impoundment and destruction of infringing trademarks and, in appropriate cases, treble damages, attorneys fees, and costs of bringing suit. Trademark owners can secure prompt relief under the Lanham Act by seeking temporary restraining orders and preliminary injunctions. Given the many weapons in the Lanham's Act's arsenal, there may be no need to provide for a private right of action under S.2428, even if Congress decides a criminal provision is appropriate.

Third, NRMA finds most disturbing the provisions of S.2428 that would authorize civil plaintiffs to seek, ex parte and without the requirement of posting security, orders for impoundment of allegedly counterfeit trademarked goods and for searches and seizures. Authorizing trademark owners, private citizens, to seek immediate impoundment and to obtain a search and seizure warrant would amount to an unprecedented and unwarranted intrusion into a putative defendant's privacy. Prosecutors of criminal laws have been granted access to such extraordinary measures as immediate impoundment and search and seizure, albeit subject to stringent institutional safeguards to prevent abuse, in recognition of the general public interest in enforcing the law.

It would be nothing short of inquisitorial to authorize private citizens to procure search and seizure warrants and immediate impoundment orders. Again, trademark infringement -- even if willful and knowing -- is essentially a wrong against a private property right, rather than against the general public. In NRMA's view, when measured against the spectrum of unlawful actions, trademark infringement does not rise to the level of reprehensibility as to justify granting private litigants the right to obtain, ex seizure warrants. If, nevertheless, this Committee determines that private plaintiffs should be able to obtain impoundment orders and search and seizure warrants, they should be conditioned on posting adequate security and should be narrowly and precisely drawn.

Further, NRMA questions whether it is necessary to specify that government prosecutors may obtain ex parte impoundment orders and search and seizure warrants. If Congress decides to criminalize counterfeit trademark infringement, such extraordinary remedies would be available to prosecutors in the ordinary course, upon the requisite showing of probable cause. For this reason, it would not be necessary to reiterate the availability of these measures in S.2428.

In sum, NRMA has serious reservations about the need for and substance of S.2428. If Congress determines that a criminal statute dealing with counterfeit trademarked goods is desirable, any such statute should, at a minimum, provide a defense for retailers acting in good faith, lest trademark owners use the statute as a bludgeon to impede competition. In addition, any such statute should permit defendants who prevail in a counterfeit trademark suit to recover the costs of defending the suit and attorney's fees. Such a measure would deter plaintiffs from instituting spurious suits.

NRMA appreciates this opportunity to apprise this Committee of the views of its members and hopes that this Committee will find these views helpful.

Respectfully submitted,

Verrick O. French

Verrick O. French
Senior Vice President
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September 28, 1982

Senator Charles McC. Mathias, Jr.
Chairman, Subcommittee on Criminal Law
Senate Judiciary Committee
358 Russell Senate Office Building
Washington, D.C. 20510

Re: Hearings on S. 2428: Supplemental Statement of The International Anti-Counterfeiting Coalition

Dear Senator Mathias:

Pursuant to the kind invitation you extended to participants at the September 15, 1982 hearings on S.2428 (the Trademark Counterfeiting Act of 1982) to submit supplementary statements prior to September 29, 1982, the International Anti-Counterfeiting Coalition respectfully submits the following response to the statements made and submitted on September 15, 1982 by spokesmen for the Association of General Merchandise Chains ("AGMC"). This letter also briefly addresses the two amendments to S.2428 suggested by spokesmen for the United States Trademark Association ("USTA").

The AGMC represents, so far as we are aware, the only outright opponents of the proposed Act. While paying lip-service to the need to combat commercial counterfeiting, the spokesmen for the AGMC find no merit in any of the provisions of the proposed Act, whether civil or criminal. However, the great bulk of their fire is

directed against those provisions of Sections (d) and (e) of the proposed Act which permit federal district courts, in their discretion, to grant trademark owners, upon an adequate showing, various forms of ex parte temporary relief, including seizure by a public officer of the counterfeit goods and of other evidence of violations of the Act. For reasons already addressed in the statements submitted on September 15 by spokesmen for the International Anti-Counterfeiting Coalition, these temporary ex parte remedies are central to the effectiveness of the proposed Act. Indeed, in a great many cases, the most meaningful deterrent against a commercial counterfeiter is the seizure of his counterfeit goods before he can profit by selling them to innocent consumers or, if he suspects detection, spirit them away. Moreover, in substantial measure these provisions simply codify and regularize ex parte remedies developed by the courts over the past few years in commercial counterfeiting cases brought under the Lanham Act.[1] Nevertheless, the AGMC raises two purported objections to the ex parte provisions: that they lack adequate standards and safeguards, and that they will permit trademark owners to engage in anticompetitive practices. We will address each of these objections in turn:

With respect to the alleged absence of standards and safeguards, the AGMC goes so far as to state, regarding ex parte seizures of counterfeit goods pursuant to the proposed Act, that "as the statute stands right now, there is no standard whatsoever as to when a judge can issue this type of ex parte seizure. There is no standard as to what type of showing an applicant must make in order to get an ex parte seizure." (Statement of Mr. Steele, Hearing Transcript at page 91). This is flatly inaccurate. The provision in Section (e) of the proposed Act providing for ex parte seizures expressly states that a district court may, in its discretion, order a public officer to make such a seizure only after an attorney for the United States or for any civil claimant "adduces probable cause to believe that the person whose person or premises is to be searched is knowingly trafficking in a counterfeit mark of which the claimant

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1. See, e.g., In Re Vuitton et Fils S.A., 606 F.2d 1 (2d Cir. 1979) and other cases discussed in the written statement submitted on September 15 by Jed S. Rakoff and Ira B. Wolff (hereinafter "Rakoff-Wolff Statement") at pages 130-33. It is indicative of the ersatz quality of the AGMC's arguments against S.2428 that, at the hearing on September 15, 1982, its spokesmen argued both that the proposed Act is unnecessary because the ex parte remedies are already available under the Lanham Act (Hearing Transcript at pages 83-84) and that the proposed Act will be subject to abuses not present under the Lanham Act precisely because it contains these ex parte provisions. (Id. at page 88).

is the lawful owner." (Emphasis supplied). "Probable cause," far from being "no standard whatsoever" (in Mr. Steele's words), is not only the constitutionally mandated standard for a search warrant but also a standard that has been elaborated and clarified in thousands of federal cases over the years. Moreover, the probable cause standard which must be met under the above-quoted language of Section (e) is probable cause to believe not only that the goods to be seized themselves bear counterfeit marks but also that the person who possesses them is "knowingly trafficking" in goods bearing counterfeit marks -- a considerably higher standard than that presently required for similar ex parte relief under the Lanham Act.[2]

Finally, Section (e) further provides that, except as otherwise set forth in this section, "the Federal Rules of Criminal Procedure shall govern the issuance and execution of warrants issued pursuant to this subsection and the seizure of property thereunder." Thus, in addition to the standards immediately set forth in Section (e) itself, all the additional standards of the Federal Rules of Criminal Procedure governing searches and seizures are likewise made part of the burden that a civil claimant must satisfy before becoming eligible for the issuance of such warrants under the proposed Act.

In addition to the ex parte seizure orders available under Section (e) of the proposed Act, there is also provision under Section (d) of the proposed Act for certain additional ex parte orders. But here again adequate standards and safeguards are provided. As to standards, the section is couched in language

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2. The absence of careful attention to the actual language of the proposed Act evident in so much of the criticism offered by the AGMC is exemplified, in this connection, by the remarks of their counsel, Mr. Steele, immediately following his above-quoted remark about there being no standard as to what type of showing an applicant must make in order to get an ex parte seizure:

> Now, that is a great big loophole. The question comes immediately to mind, does an applicant have to make a showing of knowledge. Well, I would argue of course, that he did, but I am sure the applicant might very well, if he is anxious to stop the counterfeiting, say look, it is not in the statute. We do not have to make any proof of knowledge. All we have to do is to show that there is some goods here.

(Hearing Transcript at page 91). Actually, as shown above, the requirement of establishing knowledge as a prerequisite to obtaining an ex parte seizure order is quite explicitly set forth in Section (e) of the proposed Act.

familiar to courts as being that applicable to temporary restraining orders, for which the standards, articulated by the courts over the years, are: showing by the plaintiff of irreparable harm if such relief is not granted; likelihood of success of the plaintiff's suit on its merits; and a showing that the potential harm to the plaintiff exceeds the potential harm to the defendant if the order is improvidently granted. (See Rakoff-Wolff Statement at pages 128-130). While we see no harm in making these standards even more explicit, most other statutes giving courts the power to issue temporary restraining orders do not further spell out the standards for such orders; for such standards are well-established; and the suggestion by the AGMC that the comparable formulation in Section (d) is without standards simply ignores this common practice.

As to safeguards, Section (d) expressly provides that "following the execution of any such [ex parte] order, due notice and an opportunity to be heard will promptly be afforded to any party interested in such materials [affected by such order]. . ." In addition, it is implicit in Section (d) that orders issued under it will be governed by the Federal Rules of Civil Procedure. This is because Rule 1 of the Federal Rules of Civil Procedure expressly states that "These rules govern the procedure in the United States district courts in all suits of a civil nature. . ." (emphasis supplied), and there is nothing in Section (d) that exempts civil proceedings brought under it from such coverage. Accordingly, pursuant to Rule 65, F.R.Civ.P., the issuance of ex parte orders under Section (d) of the proposed Act would be subject to such additional safeguards as: a limit of ten days on the period in which an order can be enforced before the defendant is granted a hearing; the posting of a bond by the party seeking the order; and the requirement that such order only be granted upon an affidavit or a verified complaint.

It might be fair to suggest that the incorporation of such standards from the Federal Rules of Civil Procedure be made an express part of Section (d) by the addition of some language to the effect of "As so modified, the Federal Rules of Civil Procedure shall govern the issuance and execution of orders issued pursuant to this subsection" (cf: the comparable language in Secton (e) relating to the Federal Rules of Criminal Procedure). Indeed, the International Anti-Counterfeiting Coalition has itself suggested such an amendment (see Rakoff-Wolff Statement at page 135). But given that such incorporation of the Federal Rules is already mandated by Rule 1, F.R.Civ.P., it is hardly fair to suggest, as the AGMC does, that the entire Act should be thrown out because Section (d) is allegedly without standards.

Turning to the AGMC's other objection to the ex parte provisions of Sections (d) and (e) -- that they (and the Act generally) would enable trademark owners to engage in resale price

maintenance and other anticompetitive actions against discount retailers -- it is noteworthy that William Baxter, Assistant Attorney General for the Antitrust Division of the Department of Justice, who personally testified as the first witness at these hearings, had no objection to any aspect of the proposed Act on any of the grounds now advanced by the AGMC.[3] Indeed, at the hearings on September 15, Senator Mathias put before Mr. Baxter a summary of the AGMC's position that the ex parte seizure provisions of the proposed Act could be "used by manufacturers to track down the middlemen that supply the discount retailers with the manufacturer's products and therefore to tighten their control over where their products are appearing," and asked "Is this a real danger, do you think, of abuse?" (Hearing Transcript at page 12). To this Mr. Baxter replied:

> I do not think so. . . . Anything that is going to facilitate self help against this counterfeiting is going to involve enabling a manufacturer to know where his goods are and the hands through which they are passing. But a manufacturer has a wide variety of perfectly legitimate reasons for having that information in any event. . . . So that while I do not disagree with the factual statement, I disagree that the factual statement implies the existence of a real problem.

(Id. at pages 12-13).

In addition to Mr. Baxter's point, there are several additional reasons why the AGMC's contention that the seizure provisions of the proposed Act will be misused for anticompetitive purposes is groundless. First, the Fourth Amendment to the Constitution requires that any seizure warrant particularly describe the items to be seized. Accordingly, there is little danger that seizures under the provisions of the proposed Act will become general fishing expeditions for confidential business information. Second, under the provisions of Section (e) -- which is the only section of the Act authorizing seizures beyond those of the counterfeit goods and apparatus themselves -- the seizures are to be made by a public

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3. Mr. Baxter did believe that the Bill contained some drafting errors that should be corrected, although he did "not mean to suggest that they impaired the validity of the purpose of the bill in any way or that they are particularly difficult to fix." (Hearing Transcript at page 5). Mr. Baxter also felt that the absence of any explicit reference to such safeguards as bonding "perhaps should be cleared up" (Id.) The Coalition is happy to accept the invitation given by Mr. Baxter on September 15 to assist his staff in clearing up these objections.

officer. Aside from the fact that such an officer will have no motive to seize documents beyond those that are both specified in the seizure order and that are evidence of the violation, it is anticipated that the materials so seized will be initially delivered to the court and will not be made available to any civil claimant until all interested parties, including the party from whom the materials have been seized, have been afforded their opportunity for a hearing pursuant to the provisions of Section (d) of the Act.[4] Third, the materiality of this supposed anticompetitive effect depends upon there being a significant number of discount retailers who obtain their goods from price-cutting middlemen rather than from the trademark owner-manufacturer and his licensees; yet the AGMC's own spokesmen admitted in their testimony at these hearings that in the great majority of cases not only the leading discounters but, indeed, most other retailers of whatever size buy their goods directly from trademark-owner manufacturers and their licensees. (Hearing Transcript at pages 85-87).

Finally, it should be noted that, even if the proposed Act were to have a slightly anticompetive effect in promoting retail price maintenance and thereby higher prices for consumers (a likelihood which we, like Mr. Baxter, strongly dispute), this negative effect would be more than counterbalanced by the Act's positive effect in deterring commercial counterfeiting. As Simon P. Gourdine, Commissioner of New York City Department of Consumer Affairs, stated at these hearings in opposition to the AGMC's viewpoint: "No one is more supportive than I am of fair consumer prices and competition between retailers, but the consumer who gets a counterfeit for his money gets cheated, no matter how low the price." (Hearing Transcript at page 16). Indeed, the primary effect of the Act on legitimate competition will be, not to hinder it, but to promote it, by removing from the marketplace the unfair kind of competition created by commercial counterfeiters that helps to drive honest businessmen out of the market.

In short, we believe that the grounds advanced by the AGMC in opposition to the proposed Act are misplaced.[5]

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4. As suggested in the Rakoff-Wolff Statement at page 146, the language of the proposed Act should perhaps be amended to make explicit that this is the procedure to be followed.

5. In addition to the AGMC's grounds for opposition discussed in this letter, the other criticisms of various aspects of the Act advanced by the AGMC are, we believe, fully answered in the statements previously introduced in this hearing (see, e.g., Rakoff-Wolff statement at pages 31, 102-103, 107, 110-111, 119-120, 136, 150).

Before concluding, the Coalition would also like to comment on the two amendments proposed by the USTA. At the hearings on September 15, the USTA was on the whole very much in favor of the proposed Act, describing it as "a dramatic and positive step in the direction of dealing with one of the most pressing and important commercial problems that confronts us today . . ." (Hearing Transcript at page 70). But the USTA spokesmen suggested two amendments to "refine the intended scope and application of the bill." (Id. at page 72). The first was to define "counterfeit" so as to make clear that the counterfeit trademark "must be used in such a way that the goods or services of the defendant are likely to be taken for the goods and services of the registrant of that trademark." (Id). The USTA's proffered rationale for this amendment was that:

> "Otherwise, some conduct which would not ordinarily be thought of as counterfeiting might literally be encompassed by the Bill.
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> For example, suppose a mark registered for men's clothing and used by the registrant for low-priced sports jackets is knowingly used by someone else for expensive, full-length raincoats. The bill as written appears to leave the defendant open to criminal penalties as well as heavy civil sanctions. But in all probability, many people would not regard his offense, if there has been one, as counterfeiting.

(Id. at page 72-73). The example, of course, is not likely to be a common one, since it would not be often that one would have a motive for placing a brand name associated with low priced goods on high priced articles. Still, one could imagine it happening: for example, because of "Levi's" reputation for making high-quality, though relatively inexpensive apparel, a conterfeiter conceivably might put a counterfeit "Levi's" mark on "expensive, full-length raincoats" in order to induce their sale. In such circumstances, if the defendant acted with the full criminal mens rea required under the proposed Act, why should it not be considered an act of commercial counterfeiting fully punishable by appropriate criminal and civil sanctions? We fail to see, and the USTA fails to explain, why this behavior should be considered innocent.

Moreover, consider the converse of the example given by the USTA, to wit, the placing of a counterfeit of a trademark associated with expensive, full-length raincoats like "London Fog" on low-priced sports jackets made in an inferior manner. This would seem to be a classic case of commercial counterfeiting: duping a consumer into purchasing a low-quality good by dressing it up with a counterfeit high-quality label. Yet under the USTA's proposed

amendment, such conduct would be wholly exempt from the coverage of the Act.

As this illustrates, the proposed USTA redefinition of "counterfeit" would, in our view, very seriously limit the effectiveness of the Act. For every rare (and in our view difficult-to-conceive) instance of "innocent" trademark counterfeiting that such a redefinition would exempt from the Act's coverage, it would likewise exempt a thousand cases of flagrantly deceptive commercial counterfeiting of the most "hardcore" variety.

An additional and equally serious flaw in the redefinition of "counterfeit" proposed by the USTA is that it would make the effective prosecution and conviction of those counterfeiters still falling within the revised definition far more difficult than under the current definition. As more fully discussed in the Rakoff-Wolff Statement (at pages 72-79), this is because it would frequently be difficult for the prosecution to establish beyond a reasonable doubt that the goods on which a counterfeit mark was placed were "likely to be taken" for some particular goods actually marketed by the registrant. For example, if Cartier in fact makes dial watches only and some counterfeiter were to affix the Cartier trademark to digital watches only, would the prosecution be able to establish beyond a reasonable doubt that the counterfeiter's watches were "likely to be taken" for the Cartiers?[6]

At the very least, the existence of this added element would change the focus of every case brought under the proposed Act away from its current emphasis on proving the alleged counterfeiter's criminal intent and toward an emphasis on whether a reasonably prudent consumer should have been deceived by the counterfeiter's efforts, a focus that is wholly irrelevant to the purposes of the legislation. We know of no policy reasons why a purposeful commercial counterfeiter should go unpunished simply because he attached his counterfeit marks to goods that were not perfect imitations of those actually manufactured by the trademark owner.

The USTA's other proposed amendment would replace the proposed Act's present requirements that the defendant act with knowledge and with general criminal intent with a specific intent

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6. It must also be remembered that such differences would be assessed by a jury, whose members would, during a trial, examine the real and the bogus products far longer and more carefully than the average consumer and might therefore be more impressed by the alleged magnitude of the differences between the products than would an actual consumer at the time of his purchase.

requirement, to wit, "the specific intent to pass off the goods to which the false mark is applied as those of the trademark owner's." (Hearing Transcript at page 74). We are not as concerned about this second proposed amendment as we are about the first, for in the overwhelming majority of cases there will be no practical difference between the proof required to show the mental state presently set forth in the proposed Act and that required to show the specific intent set forth under the USTA's second proposed amendment. Nonetheless, we believe, for three reasons, that the present language of the Act is preferable to that proposed by the USTA:

First, contrary to the USTA's assertions (see Hearing Transcript at 73-74), we do not believe that any innocent person could possibly be held in violation of the proposed Act under its present formulation. This is because, by long-standing canons of construction of criminal statutes (amounting perhaps to constitutional doctrine as well), all federal criminal statutes are presumed to include a required element of "mens rea" or "evil intent" in addition to any specified scienter requirements such as knowledge. (See Rakoff-Wolff Statement at pages 79-85). This requirement of general criminal intent effectively precludes anyone who is genuinely innocent from having any liability under the Act.

Second, the USTA's requirement that the defendant have "the specific intent to pass off the goods to which the false mark is applied as those of the trademark owner's" may hamper or even preclude conviction of those commercial counterfeiters who are most culpable of all, i.e., those at the very top of large and complex chains of distribution of counterfeit goods. It will frequently be the case that everyone in such a chain, except for the ultimate consumer (and sometimes even he), will know of the counterfeit nature of the goods or of the marks affixed thereto, so that, particularly at the higher levels of the chain of distribution, it may be difficult to prove that the defendant intended to pass off the goods to which the false mark was applied as those of the trademark owner's, while it will be obvious that he was trafficking in such marks knowing them to be counterfeit.

Finally, for these and other reasons, Congress only last May expressly rejected such a specific intent requirement in connection with prohibiting the counterfeiting of phonograph labels and substituted instead the same mental state required under the proposed Act. Specifically, Congress, at the suggestion of the Department of Justice, amended 18 U.S.C. § 2318 (prohibiting trafficking in counterfeit phonograph labels) by, on the one hand, increasing the criminal penalties from a maximum of one year per count to a maximum of five years per count, and on the other hand, by reducing the required mental state from a specific intent to deceive to a general criminal intent plus knowledge. This latter decision was apparently taken

because of the difficulties encountered in mounting effective prosecutions under the specific intent requirements of the previous version of § 2318.[7] It would be incongruous for Congress, having recognized this problem and having chosen to meet it by eliminating the specific intent requirement for one kind of commercial counterfeiting, namely, record piracy, to ignore this decision and institute a specific intent requirement as part of its more general attack on all kinds of commercial counterfeiting.

In discussing these differences that we have with the USTA's position, however, we do not mean to in any way obscure the very substantial agreement that exists between them and us and, we believe, among a very large spectrum of other groups ranging from manufacturers' groups through bar association groups through consumer protection groups, in favor of the great bulk of the provisions embodied in the proposed Act. We are most hopeful that, with the help and endorsement of the Department of Justice, a version of the Act very similar to S.2428 will be sponsored by your Committee and enacted by Congress in the not-too-distant future.

Respectfully submitted,

INTERNATIONAL ANTI-COUNTERFEITING
COALITION

By: _____

MUDGE ROSE GUTHRIE & ALEXANDER
(Counsel to the Coalition)

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7. See generally, Hearing before the Subcommittee on Criminal Law of the Senate Committee on the Judiciary, Piracy and Counterfeiting Amendments Act of 1982 (S. 691), 97th Cong., 1st Sess. (1981).